

ORIGINAL



0000161780

RECEIVED

SHAPIRO LAW FIRM, P.C.  
Jay L. Shapiro (No. 014650) 2015 JUL 27 P 1:40  
1819 E. Morten Avenue, Suite 280  
Phoenix, Arizona 85020  
Telephone (602) 559-9575 AZ CORP COMMISSION  
DOCKET CONTROL

Attorneys for Quail Creek Water Company, Inc.

**BEFORE THE ARIZONA CORPORATION COMMISSION**

IN THE MATTER OF THE APPLICATION  
OF QUAIL CREEK WATER COMPANY,  
INC., AN ARIZONA CORPORATION,  
FOR A DETERMINATION OF THE FAIR  
VALUE OF ITS UTILITY PLANTS AND  
PROPERTY AND FOR INCREASES IN  
ITS WATER RATES AND CHARGES FOR  
UTILITY SERVICE BASED THEREON.

DOCKET NO: W-02514A-14-0343

**NOTICE OF FILING REJOINDER  
TESTIMONY**

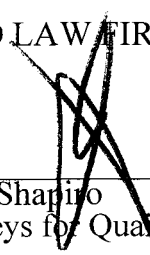
Quail Creek Water Company, Inc. hereby submits this Notice of Filing Rejoinder  
Testimony in the above-referenced matter. Specifically filed herewith are the following  
testimonies, along with supporting schedules and/or attachments:

1. Rejoinder Testimony of Steven Soriano;
2. Rejoinder Testimony of Ray L. Jones;
3. Rejoinder Testimony of Thomas J. Bourassa – Rate Base, Income Statement  
and Rate Design; and
4. Rejoinder Testimony of Thomas J. Bourassa – Cost of Capital.

RESPECTFULLY SUBMITTED this 27th day of July, 2015.

SHAPIRO LAW FIRM, P.C.

Arizona Corporation Commission  
**DOCKETED**  
JUL 27 2015

By   
Jay L. Shapiro  
Attorneys for Quail Creek Water Company, Inc.

DOCKETED BY TV

1 **ORIGINAL** and thirteen (13) copies  
2 of the foregoing were filed  
3 this 27th day of July, 2015, with:

4 Docket Control  
5 Arizona Corporation Commission  
6 1200 W. Washington Street  
7 Phoenix, AZ 85007

8 **COPY** of the foregoing was hand-delivered & e-mailed  
9 this 27th day of July, 2015, to:

10 Jane Rodda, ALJ  
11 Hearing Division  
12 Arizona Corporation Commission  
13 1200 W. Washington Street  
14 Phoenix, AZ 85007

15 Wes Van Cleve  
16 Brian Smith  
17 Legal Division  
18 Arizona Corporation Commission  
19 1200 W. Washington Street  
20 Phoenix, AZ 85007

21 By: Whitney Bink  
22  
23  
24  
25  
26

1 SHAPIRO LAW FIRM, P.C.  
Jay L. Shapiro (No. 014650)  
2 1819 E. Morten Avenue, Suite 280  
Phoenix, Arizona 85020  
3 Telephone (602) 559-9575

4 Attorneys for Quail Creek Water Company, Inc.

5  
6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

7  
8 IN THE MATTER OF THE APPLICATION  
OF QUAIL CREEK WATER COMPANY,  
9 INC., AN ARIZONA CORPORATION,  
FOR A DETERMINATION OF THE FAIR  
10 VALUE OF ITS UTILITY PLANTS AND  
PROPERTY AND FOR INCREASES IN  
11 ITS WATER RATES AND CHARGES FOR  
UTILITY SERVICE BASED THEREON.

DOCKET NO: W-02514A-14-0343

12  
13  
14  
15 **REJOINDER TESTIMONY**  
16 **OF**  
17 **STEVEN SORIANO**

18  
19 **JULY 27, 2015**  
20  
21  
22  
23  
24  
25  
26

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

## TABLE OF CONTENTS

I.	INTRODUCTION, PURPOSE AND SUMMARY OF TESTIMONY.....	1
II.	REJOINDER TO SURREBUTTAL TESTIMONY OF JAMES R. ARMSTRONG .....	1
A.	Robson Utilities Business Model .....	1
B.	Rejoinder to Mr. Armstrong.....	3

1     **I.     INTRODUCTION, PURPOSE AND SUMMARY OF TESTIMONY.**

2     **Q.     PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3     A.     My name is Steven Soriano. My business address is 9532 E. Riggs Road, Sun Lakes,  
4             Arizona 85248.

5     **Q.     ARE YOU THE SAME STEVEN SORIANO WHO FILED DIRECT**  
6             **TESTIMONY IN THIS PROCEEDING?**

7     A.     Yes.

8     **Q.     HAS ANYTHING CHANGED WITH RESPECT TO YOUR EMPLOYMENT**  
9             **OR RESPONSIBILITIES?**

10    A.     No. I am still employed as a Vice-President for Robson Communities, Inc.  
11            ("Robson"), and I hold the titles of Vice-President and Assistant Secretary for the  
12            Applicant, Quail Creek Water Company, Inc. ("QCW" or "Company").

13    **Q.     HAVE YOU REVIEWED THE SURREBUTTAL FILING MADE BY STAFF?**

14    A.     Yes.

15    **II.    REJOINDER TO SURREBUTTAL TESTIMONY OF JAMES R.**  
16            **ARMSTRONG.**

17        A.     Robson Utilities Business Model.

18    **Q.     WOULD YOU SUMMARIZE THE BUSINESS MODEL USED BY THE**  
19             **ROBSON UTILITIES?**

20    A.     Each of our utilities is a separate legal entity that stands alone from a financial and  
21            ratemaking perspective. The stockholders of each utility have a lot of commonality  
22            with each other and the other utilities in the Robson family of companies, but each  
23            ownership is unique and each utility is financially independent from the other  
24            affiliates. There are no parent/subsidiary relationships and one entity does not own  
25            any other entity.  
26

1           There is also common operation, administration and management. By sharing  
2           operating personnel all of the utilities, including QCW, enjoy economies of scale  
3           that otherwise would not be available. Additional efficiency is obtained by using  
4           Robson affiliates to provide certain services to the utilities. Robson Communities,  
5           Inc., my employer, provides accounting and administrative services to the utilities,  
6           including QCW. Other Robson affiliates provide construction and project  
7           management for the utilities. In the case of QCW, Robson Ranch Quail Creek, LLC  
8           performs this function.

9   **Q.   WHY ARE THE UTILITIES MANAGED AND OPERATED IN THIS WAY?**

10  A.   The primary reason is to use shared services to provide a broader range of services  
11       to the utilities by achieving economies of scale. This model allows the utilities to  
12       maintain relatively small operating staffs and rely on larger, more sophisticated  
13       affiliated entities to provide services that the individual utilities could not afford to  
14       provide for themselves. The end result is that administrative and management costs  
15       are lower than they otherwise would be. Additionally, the utilities are able to plan,  
16       design and construct needed utility plant without incurring the cost and overhead of  
17       employing project managers, engineers and personnel that would otherwise be  
18       required and increase the cost.

19  **Q.   HAS THIS MODEL BEEN SUCCESSFUL?**

20  A.   I believe it has. QCW and its affiliates provide high-quality, reliable service to their  
21       customers. The plant facilities are well planned, properly constructed, meet  
22       regulatory requirements and serve their respective communities in a reliable manner.  
23       The rates authorized for the companies, including QCW, have been relatively stable  
24       over time and tend to be on the lower end of water rates for comparable communities.

1           **B.     Rejoinder to Mr. Armstrong.**

2           **Q.     WHAT WAS YOUR OVERALL REACTION TO MR. ARMSTRONG'S**  
3           **TESTIMONY REGARDING QCW'S ACCOUNTING PRACTICES?**

4           A.     I was taken aback by the testimony. I have been the General Manger of the Robson  
5                   utilities since 2010. In that time, as I discussed in my direct testimony in this case,  
6                   I have begun the process of bringing each of the utilities under the Robson umbrella  
7                   into the Commission for rate cases. I have engaged consultants experienced in utility  
8                   regulation in Arizona to review and provide advice on various aspects of our  
9                   operations and to assist with these rate cases. QCW is the third company to seek rate  
10                  relief.<sup>1</sup>

11                         Based on the 2011 case for Pima Utility Company ("Pima") and the 2013 case  
12                         for Lago Del Oro Water Company ("Lago"), I understood Staff to be generally  
13                         satisfied with our operations. My philosophy is to manage the utilities in an effective  
14                         manner that meets the expectations of our regulators, and based on the Pima and  
15                         Lago cases, I believed everything was generally in good working order. This is why  
16                         I was quite surprised at the nature and tenor of Mr. Armstrong's testimony and the  
17                         recommendations it contains.

18           **Q.     THANK YOU, MR. SORIANO. WOULD YOU PLEASE ADDRESS THE**  
19           **DISUPTE OVER WELL 16, WHICH DISPUTE APPEARS TO UNDERLIE**  
20           **THE ALLEGATIONS AND RECOMMENDATIONS MADE BY STAFF IN**  
21           **THIS RATE CASE?**

22           A.     Yes. Well 16 was an existing well acquired by Robson Ranch Quail Creek, LLC  
23                   ("RRQC") when it purchased the Quail Creek development. The well was  
24                   designated as a source of supply for potable water to be developed by QCW and to

25  
26           <sup>1</sup> See Direct Testimony of Steven Soriano at 3:22 – 4:2.

1 be used to provide water utility service. Consistent with our business model, RRQC  
2 undertook rehabilitation and development of the well on QCW's behalf. The well  
3 project was completed in 2006, connected to the QCW water system, and QCW took  
4 over operation of the well. Unfortunately, the well did not perform in an acceptable  
5 manner due to excessive sand production and we were forced to remove it from  
6 service in 2009.

7 **Q. WHAT WAS THE RELATIONSHIP BETWEEN QCW AND RRQC WITH**  
8 **RESPECT TO WELL 16?**

9 A. QCW does not employ project managers, engineers or other personnel necessary to  
10 develop a well. Instead, QCW relies on RRQC to construct plant improvements,  
11 such as the rehabilitation of Well 16 on its behalf. RRQC provides these services at  
12 cost without any profit or markup.

13 **Q. DID RRQC RECEIVE ANY DIRECT BENEFIT FROM THE WELL?**

14 A. No. As explained in Mr. Jones's rebuttal testimony, the well was never utilized by  
15 RRQC or any other Robson affiliate. The well was rehabilitated and constructed by  
16 RRQC for the exclusive use of QCW in the provision of potable water service.<sup>2</sup>  
17 It just didn't work out as hoped.

18 **Q. DID QCW PAY FOR WELL 16 ON A DEFERRED BASIS?**

19 A. Yes, it did. The well was paid for in 2011 and the asset was recorded on QCW's  
20 books at that time. As mentioned earlier, I took over management of the utilities in  
21 2010 and discovered that it had been our practice for utilities to pay for assets  
22 transferred from constructing affiliates when the funds became available, rather than  
23 when the assets were placed into service. During the Lago case I contracted with  
24 Mr. Jones to review our utilities and determine which ones needed rate cases.

25  
26 <sup>2</sup> See Rebuttal Testimony of Ray L. Jones at 3-4.



1 With this data in hand, I have been able to put a plan in place to discontinue the  
2 practice of deferred payment for assets and instead allow the utilities, on a going  
3 forward basis, to make payment for assets at the time they are placed into service.  
4 In QCW's case, I was able to raise the capital, and the last of the deferred payment  
5 assets was paid for in 2011.

6 **Q. SO DEFERRED ASSET PAYMENTS ARE NOT SOMETHING THE**  
7 **COMMISSION SHOULD BE CONCERNED ABOUT ON A GOING**  
8 **FORWARD BASIS?**

9 A. No, this practice has been discontinued with the last of the deferred payments being  
10 made in September 2014. As of September 2014 it is the practice of all of our  
11 utilities, including QCW, to record the acquisition of all assets constructed by an  
12 affiliate on an accrual basis during the year that construction is completed and they  
13 are placed into service. Full payment to the constructing affiliate will be made within  
14 12 months of recording the asset. The utilities expect to use a combination of  
15 retained earnings, additional paid in capital from shareholders, and, to the extent  
16 approved by the Commission, new debt to fund the plant additions.

17 **Q. WILL THIS BE AN ONGOING ISSUE FOR THE COMMISSION FOR**  
18 **THOSE UTILITIES THAT HAVE NOT YET FILED FOR NEW RATES**  
19 **SINCE YOU TOOK OVER MANAGEMENT?**

20 A. No. While the remaining utilities have recorded some deferred asset entries on their  
21 books, they have discontinued this practice as of September 2014. In order to remove  
22 this as an issue in future rate cases for those companies, before the end of this year,  
23 those companies will book adjustments to accumulated depreciation consistent with  
24 the adjustments approved in the Lago case and proposed in this case. Once those  
25 adjustments are made, those utilities' books and plant records will be exactly the  
26 same as if the plant transactions had been recorded at the time the plant was placed

1           into service. This will eliminate the issue from future rate cases.

2       **Q.   DID QCW OR ANY OF THE ROBSON AFFILIATES BENEFIT FROM THIS**  
3       **ARRANGMENT AT RATEPAYERS' EXPENSE?**

4       A.   Not in any way of which I am aware. In fact, the nonutility affiliates essentially  
5       subsidized service to our utility customers by paying for plant and waiting for several  
6       years to get the money back. I understand that Staff doesn't like this model, but that  
7       should not be because our customers have ever been harmed. Nor will they be in the  
8       future.

9       **Q.   DOES THIS CONCLUDE YOUR REJOINDER TESTIMONY?**

10      A.   Yes.

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

1 SHAPIRO LAW FIRM, P.C.  
Jay L. Shapiro (No. 014650)  
2 1819 E. Morten Avenue, Suite 280  
Phoenix, Arizona 85020  
3 Telephone (602) 559-9575

4 Attorneys for Quail Creek Water Company, Inc.

5  
6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

7  
8 IN THE MATTER OF THE APPLICATION  
OF QUAIL CREEK WATER COMPANY,  
9 INC., AN ARIZONA CORPORATION,  
FOR A DETERMINATION OF THE FAIR  
10 VALUE OF ITS UTILITY PLANTS AND  
PROPERTY AND FOR INCREASES IN  
11 ITS WATER RATES AND CHARGES FOR  
UTILITY SERVICE BASED THEREON.

DOCKET NO: W-02514A-14-0343

12  
13  
14  
15 **REJOINDER TESTIMONY**  
16 **OF**  
17 **RAY L. JONES**

18  
19 **JULY 27, 2015**  
20  
21  
22  
23  
24  
25  
26

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

**TABLE OF CONTENTS**

I. INTRODUCTION, PURPOSE AND SUMMARY OF TESTIMONY..... 1

II. REJOINDER TO SURREBUTTAL TESTIMONY OF JOHN A. CASSIDY..... 1

III. REJOINDER TO SURREBUTTAL TESTIMONY OF JAMES R.  
ARMSTRONG ..... 9

    A. QCW Accounting and Financial Reporting ..... 9

    B. Staff Recommendations Regarding QCW's Accounting and  
        Recording Practices ..... 14

1    **I.    INTRODUCTION, PURPOSE AND SUMMARY OF TESTIMONY.**

2    **Q.    PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3    A.    My name is Ray L. Jones, P.E. My business address is 18835 North Thompson  
4    Peak Parkway, Suite 215, Scottsdale, Arizona 85255.

5    **Q.    ARE YOU THE SAME RAY L. JONES THAT FILED DIRECT AND**  
6    **REBUTTAL TESTIMONIES IN THIS PROCEEDING?**

7    A.    Yes.

8    **Q.    HAS ANYTHING CHANGED WITH RESPECT TO YOUR EMPLOYMENT**  
9    **OR RESPONSIBILITIES?**

10   A.    No. I am still owner and principal of ARICOR Water Solutions LC, and Executive  
11   Director of the Water Utilities Association of Arizona, and I am testifying on behalf  
12   of the Applicant Quail Creek Water Company, Inc. ("QCW" or "Company").

13   **Q.    HAVE YOU REVIEWED THE SURREBUTTAL FILING MADE BY**  
14   **STAFF?**

15   A.    Yes.

16   **Q.    WHAT WILL YOU ADDRESS IN THIS REJOINDER TESTIMONY?**

17   A.    I will address Staff's recommended treatment of the costs associated with Well 16.  
18   I will also respond to Staff's allegations concerning QCW's accounting and  
19   recording practices and Staff's associated recommendations.

20   **II.   REJOINDER TO SURREBUTTAL TESTIMONY OF JOHN A. CASSIDY.**

21   **Q.    HAS STAFF CHANGED ITS POSITION REGARDING WELL 16 COSTS?**

22   A.    Unfortunately, no. Staff disregards the clear and plain language of the NARUC  
23   System of Accounts and continues to recommend that all costs incurred by the  
24   Company for the construction of Well 16 be ignored for ratemaking purposes.  
25  
26

1 **Q. CAN YOU SUMMARIZE STAFF'S POSITION ON THE WELL 16 COSTS**  
2 **AS EXPRESSED IN ITS SURREBUTTAL TESTIMONY?**

3 A. Staff's surrebuttal testimony on the Well No. 16 issue boils down to two basic  
4 arguments:

- 5 1. Because Well 16 was only "marginally operationally useful" the cost  
6 should have remained in NARUC Account 105, Construction Work  
7 in Progress (CWIP), and never been transferred to NARUC Plant  
8 Account 307. According to Mr. Cassidy, these costs are not eligible  
9 to be included in rate base; and
- 10 2. The NARUC System of Accounts is not controlling because it applies  
11 only to regulated utilities, not unregulated affiliates. However, the  
12 NARUC Guidelines for Cost Allocations and Affiliate Transactions  
13 (Guidelines) are controlling.

14 **Q. WHAT IS YOUR RESPONSE TO STAFF'S FIRST SURREBUTTAL**  
15 **ARGUMENT – THE WELL 16 COSTS SHOULD HAVE REMAINED IN**  
16 **CWIP?**

17 A. I disagree.

18 First, Well 16 *was* placed into service. As I stated in my rebuttal testimony  
19 "the water was pumped into the Company's water distribution system, delivered to  
20 and paid for by its customers. The well was most certainly in service."<sup>1</sup>

21 Second, NARUC Account 105 establishes that plant accounted for in CWIP  
22 is "utility plant in process of construction but not ready for service."<sup>2</sup> Staff ignores  
23 this plain language and instead uses phrases like "very short in-service life" to  
24

---

25 <sup>1</sup> Rebuttal Testimony of Ray L. Jones ("Jones Rb.") at 11:19-20.

26 <sup>2</sup> Surrebuttal Testimony of John A. Cassidy (Revenue Requirement and Rate Design)  
("Cassidy Sb."), Attachment 1.

1 justify its conclusion that Well 16 “was not really in-service.”<sup>3</sup> Again, however, as  
2 I testified in rebuttal, “QCW took possession of Well 16 upon issuance of new  
3 Source Approval by Pima County. The well was connected to the system and  
4 available for use by QCW at any time.”<sup>4</sup> In other words, the “process of  
5 construction” was complete and the well was “ready for service.” QCW’s decision  
6 to record the cost of Well 16 in a plant in service account was proper.

7 Lastly, and perhaps most significantly, the inclusion of Well 16 costs in  
8 Account 307 is not contingent upon or in any way limited by the “in-service status”  
9 of the well. I have no idea where Staff came up with that idea, but NARUC is clear –  
10 Account 307 includes the cost of “wells, casings and appurtenances, including the  
11 cost of test wells and *nonproductive wells* drilled as part of a project resulting in a  
12 source of water within the same supply area.”<sup>5</sup>

13 Simply put, NARUC recognizes the complexity and difficulty of developing  
14 a well-based water supply and allows for the cost of failed wells to be included in  
15 rate base. Staff’s position that Well 16 costs should be disallowed because the  
16 construction process was not fully completed or because the well was not in service  
17 for a sufficiently long period of time is contrary to both the plain language of the  
18 NARUC System of Accounts and the obvious intent of the rule.

19 So, in summary, Well 16 was most certainly placed into service.  
20 Furthermore, whether or not Well 16 was placed into service, the plain language of  
21 the NARUC System of Accounts allows the cost of Well 16 – a nonproductive well  
22 – to be included in Account 307. Staff’s attempts to thwart the applicable NARUC  
23

---

24 <sup>3</sup> Cassidy Sb. at 3:3.

25 <sup>4</sup> Jones Rb. at 11:12-14.

26 <sup>5</sup> NARUC, *Uniform System of Accounts for Class A Water Utilities*, p. 101 (emphasis added).

1 allowance for the costs of a well that turned out to be non-productive should be  
2 disregarded.

3 **Q. BUT WHAT ABOUT STAFF'S CLAIM THAT THE UNIFORM SYSTEM**  
4 **OF ACCOUNTS IS NOT CONTROLLING BECAUSE IT ONLY APPLIES**  
5 **TO REGULATED UTILITIES?**

6 A. This argument is based on Staff's misleading description of the nature of the  
7 relationship between QCW and its affiliate. The costs in question are costs incurred  
8 by a regulated utility to find new water supply, recorded on the books of a regulated  
9 utility and presented by a regulated utility in a rate case filed with the Commission.  
10 This is not about recovery of costs residing on the books of the unregulated affiliate,  
11 nor is QCW arguing directly or implying that the NARUC System of Accounts  
12 applies to QCW's non-regulated affiliate or that recovery of any costs in this case is  
13 dependent upon the NARUC System of Accounts being applicable to QCW's non-  
14 regulated affiliate.

15 **Q. WHY DOES QCW USE AN AFFILIATE TO CONSTRUCT PLANT, SUCH**  
16 **AS WELL 16?**

17 A. Mr. Soriano addresses the use of affiliated entities to pay for and construct plant,  
18 for QCW and all of the affiliated utilities in the Robson family of companies, in his  
19 rejoinder testimony.<sup>6</sup> In summary, QCW uses an affiliate because the affiliate can  
20 complete the projects more efficiently and at a lower cost to the Company and its  
21 customers than QCW could itself. As I testified in my rebuttal, the arrangement  
22 between QCW and its affiliate allows QCW to design and construct water utility  
23 plant without incurring the cost of directly employing project managers, engineers,  
24 or accounting personnel that otherwise would be necessary. Instead, an affiliate,  
25

26 <sup>6</sup> Rejoinder Testimony of Steven Soriano ("Soriano Rj.") at 2.



1 with extensive experience in construction and possessing substantial resources,  
2 performs the work on an as needed basis at the actual cost, no profit or markup.<sup>7</sup>

3 **Q. SO IS STAFF CORRECT THAT, UNDER THIS ARRANGMENT, THE**  
4 **RISK THAT PLANT WILL NOT BE INCLUDED IN RATE BASE IS ON**  
5 **THE AFFILIATE DURING CONSTRUCTION?**

6 A. No, absolutely not. That testimony is directly contrary to how business works in  
7 the real world. The affiliate assumes traditional contractor risk, such as labor issues,  
8 defective materials and equipment, defective construction and damage during  
9 construction. But, QCW, as owner of the assets, retains the risks of ownership,  
10 which in the case of well drilling and rehabilitation includes all risk associated with  
11 nonperformance of the well itself.

12 **Q. IN YOUR EXPERIENCE, IS IT NORMAL THAT THE OWNER TAKES**  
13 **THE RISK OF WELL NONPERFORMANCE?**

14 A. Yes it is. I have been involved in numerous well drilling and rehabilitation projects  
15 during my 30 plus year career in the Arizona utility business. In each instance, the  
16 owner of the well took the risk of a nonperforming or failed well. I have never seen  
17 the risk of a failed well placed on a contracted hydrogeologist, design engineer,  
18 drilling contractor or other entity contracted with the owner during the well  
19 construction process. This is because the owner of the well is the only entity that  
20 will receive a long-term benefit from the well that is of sufficient value to justify  
21 taking the risk of well failure. The profit a contractor makes on the cost of  
22 construction is not and cannot be sufficient to allow a contractor to absorb the  
23 financial risk of a nonperforming well.

24  
25  
26 <sup>7</sup> Jones Rb. at 8:18-23.

This is certainly the case here. QCW's affiliate does not receive any profit, administrative mark-up or other benefit from the well, so there is simply no basis for Staff to put the risk of a nonperforming well on the affiliate.

**Q. IN THE ABSENCE OF A WRITTEN AGREEMENT, ISN'T STAFF CORRECT THOUGH IN ASSUMING THAT THE AFFILIATE BORE THE RISK RELATED TO THE NONPERFORMANCE OF WELL 16?**

A. No, such speculation is simply counter to business reality and common sense. As explained above, risk taken must be in relation to benefit received or the parties, affiliated or not, will not undertake the transaction in the first place. In my experience, the lack of a written contract does not change the fundamental basis of contractual arrangements, nor require one party to accept risk that is clearly disproportionate to the benefit received. With all due respect, the argument that QCW's affiliate took the utility's risk of a non-productive well is really just ridiculous.

**Q. THANK YOU, MR. JONES. TURNING BACK TO NARUC, WHAT ABOUT STAFF'S ARGUMENT THAT THE "GUIDELINES" ARE CONTROLLING?**

A. To begin with, Staff admits in surrebuttal that the Guidelines are not “rules” as represented in Staff’s direct filing.<sup>8</sup> Nevertheless, Staff continues to claim that the Guidelines are controlling because the NARUC System of Accounts applies only to regulated utilities.<sup>9</sup> In other words, Staff is arguing first, that QCW cannot follow the NARUC System of Accounts provision that includes the cost of non-productive wells because QCW’s affiliate drilled and paid for the well, and second, that the

<sup>8</sup> See Direct Testimony of John A. Cassidy (“Cassidy Dt.”) at 15:1-4; Cassidy Sb. at 4:13-21.

<sup>9</sup> Cassidy Sb. at 4:21-22.

1 Guidelines, a supplementary document to the NARUC System of Accounts, apply  
2 and preclude recovery by QCW. This sort of strained reasoning by Staff to avoid  
3 allowing recovery of the cost of the non-productive well should fail. The NARUC  
4 System of Accounts is always the controlling document regarding accounting for a  
5 regulated utility. And once Staff's bar to recovery under NARUC – the fact that the  
6 affiliate built and paid for the plant – is removed, there is no basis whatsoever for a  
7 guidance document to somehow supersede the NARUC System of Accounts.

8 **Q. BUT THE GUIDELINES ARE SUPPOSED TO PROVIDE GUIDANCE.**  
9 **ARE THEY APPLICABLE TO THIS CASE?**

10 A. The Guidelines were designed to help prevent cross-subsidization by energy utility  
11 customers of unregulated business activities by energy utility affiliates.

12 Specifically, the Guidelines Staff relies upon were developed pursuant to a  
13 NARUC resolution passed in 1998 entitled "Resolution Regarding Cost Allocation  
14 for the Energy Industry" and were prepared without any involvement from the water  
15 industry. The Guidelines themselves state the purpose:

16 The following Guidelines for Cost Allocations and Affiliate  
17 Transactions (Guidelines) are intended to provide guidance to  
18 jurisdictional regulatory authorities and regulated utilities and their  
19 affiliates in the development of procedures and recording of  
20 transactions for services and products between a regulated entity and  
21 affiliates. The prevailing premise of these Guidelines is that allocation  
22 methods *should not result in subsidization* of non-regulated services  
23 or products by regulated entities unless authorized by the  
24 jurisdictional regulatory authority. These Guidelines are not intended  
25 to be rules or regulations prescribing how cost allocations and affiliate  
26 transactions are to be handled. They are intended to provide a  
framework for regulated entities and regulatory authorities in the  
development of their own policies and procedures for cost allocations  
and affiliated transactions.<sup>10</sup>

<sup>10</sup> NARUC, Guidelines For Cost Allocations And Affiliate Transactions, p. 1 (emphasis added).

1           Clearly, the Guidelines were prepared to address *cost allocations* between  
2           *gas and electric utilities* and their unregulated subsidiaries. I am not certain they  
3           were ever intended to be or are applicable to the water industry, and they most  
4           certainly were not intended to supersede the NARUC System of Accounts for water  
5           utilities.

6   **Q.   OKAY, FAIR ENOUGH, BUT THE GUIDELINES STILL RELATE TO**  
7           **AFFILIATE TRANSACTIONS AND WE DO HAVE SUCH**  
8           **TRANSACTIONS PRESENT IN THIS CASE, CORRECT?**

9   A.   Yes, there is an affiliate transaction underlying the disputed Well 16 costs, so if we  
10       were to turn to the Guidelines for some insight as to how that transaction should be  
11       looked at in a regulatory setting, we find that the prevailing premise of the  
12       Guidelines is that allocation methods "*should not result in subsidization.*"  
13       Accordingly, to the extent the Guidelines are applicable to the water industry,  
14       the appropriate regulatory investigation is one of cost and subsidization. In other  
15       words, does the transaction recorded on the regulated utilities books result in  
16       subsidization of the unregulated affiliate?

17   **Q.   THAT'S A GOOD QUESTION, MR. JONES. WOULD YOU GO AHEAD**  
18           **AND ANSWER IT PLEASE?**

19   A.   The answer is that the subject transaction – the funding and construction of Well 16  
20       by the affiliate and subsequent, albeit delayed, reimbursement of the actual cost by  
21       QCW – did not result in any subsidization of the business of an unregulated affiliate  
22       by QCW's ratepayers. Well 16, productive or not, is of no value to QCW's affiliate.  
23       The Company's testimony that its affiliate constructed Well 16 at actual cost  
24       without applying any overhead or markup is uncontroverted. Staff has provided no  
25       evidence of subsidization or other harm to the ratepayers. Staff has not even alleged  
26       that subsidization occurred. Since there is no subsidization of the utility's affiliate,

1 the underlying transaction is not in any way contrary to the Guidelines.  
2 The Guidelines, whether applicable to water utilities or not, should have no further  
3 impact on the ratemaking consideration of the cost associated with the affiliate  
4 transaction. They should certainly not be used as means of denying the recovery on  
5 and of reasonable and prudent investment, which seems to be precisely what Staff  
6 is trying to do with the Guidelines in this rate case.

7 **III. REJOINDER TO SURREBUTTAL TESTIMONY OF JAMES R. ARMSTRONG.**

8 **A. QCW Accounting and Financial Reporting.**

9  
10 **Q. HAVE YOU READ MR. ARMSTONG'S TESTIMONY REGARDING**  
11 **QCW'S ACCOUNTING AND FINANCIAL REPORTING PRACTICES?**

12 **A.** Yes, I have read Mr. Armstrong's surrebuttal testimony. He did not file direct  
13 testimony in this rate case.

14 **Q. WHAT IS YOUR OVERALL REACTION TO MR. ARMSTRONG'S**  
15 **TESTIMONY?**

16 **A.** Frankly, I am puzzled. I have been working with the Robson family of utilities since  
17 2010, and in that time have assisted with rate case filings for QCW affiliates –  
18 Pima Utility Company ("Pima") in 2011 and Lago Del Oro Water Company  
19 ("Lago") in 2013. I have found the Robson family of utilities to be well-managed  
20 utilities that provide reliable service to generally satisfied customers. I believed Staff  
21 to have the same impression of the utility companies.

22 In those previous cases, as is typical, Staff recommended various rate base  
23 and income statement adjustments, and the companies and Staff addressed those  
24 proposed adjustments in their respective testimonies. This was all done in a very  
25 non-controversial manner, with the Staff, and Pima and Lago, ultimately coming to  
26 agreement on most items. Staff did not raise concerns about the manner in which

1 the Robson utilities were using affiliates to fund and construct plant or the underlying  
2 recording and reporting practices used by a QCW affiliate. In fact, I have reviewed  
3 rate case files for QCW and its affiliates going back decades and this seems to be the  
4 first time Staff has ever expressed a concern over the Company's accounting  
5 practices. There is nothing new about the accounting and reporting in this case to  
6 justify Staff's shift from decades of silence to recommending the sort of punitive  
7 measures in Staff's surrebuttal filing in this case.

8 **Q. WHAT IS YOUR OPINION OF THE ACCOUNTING AND REPORTING**  
9 **PRACTICES USED BY QCW AND THE OTHER AFFILIATED UTILITIES?**

10 A. QCW, like Pima and Lago and the several other affiliated utilities operating in  
11 Arizona, uses a sophisticated enterprise-wide accounting system that records  
12 transactions with a high level of detail. The professional accounting staff are able to  
13 provide detail and support for transactions that would be unavailable for companies  
14 using less sophisticated accounting systems. Overall, it is my opinion based on my  
15 over 30 years of experience with utilities regulated by the Commission, that the  
16 Robson utilities accounting records generally and the QCW accounting records  
17 specifically are quite good, meeting or exceeding industry norms.

18 **Q. WERE YOU REQUIRED TO UNDERTAKE ANY INAPPROPRIATE OR**  
19 **EXTRAORDINARY MEASURES TO HELP PREPARE THIS CASE FOR**  
20 **FILING?**

21 A. No. As I explained in my direct testimony, in preparing this case I conducted a  
22 detailed review of QCW's fixed asset and related accounting records. I performed  
23 similar reviews in the previous cases for Pima and Lago. In all cases, I found the  
24 records to be generally in good order and compliance with the NARUC System of  
25 Accounts. The entries were generally complete with detailed descriptions and  
26 suitable backup documentation.

1           There were a few items that needed attention and I prepared schedules and  
2 adjustments for filing with the rate case to deal with those items. The adjustments  
3 to the various plant accounts, accumulated depreciation balances, CIAC balances  
4 and AIAC balances made in this case are typical of those routinely made in rate  
5 cases. It is my observation that when a utility filing a rate case does not conduct  
6 such a review, Commission Staff will do its own review and recommend the same  
7 types of adjustments. QCW's goal in authorizing me to review fixed asset and  
8 related accounting records was to insure that the Company filed the "cleanest" rate  
9 case possible that resulted in the smallest amount of work for Staff.

10 **Q. BUT, MR. JONES, DIDN'T YOU ACKNOWLEDGE THAT THE ROBSON**  
11 **UTILITIES HAVE HAD ACCOUNTING ISSUES?**

12 A. No, I did not. Mr. Armstrong claims I did and references page 8, lines 4 to 6 of my  
13 rebuttal testimony.<sup>11</sup> Speaking of the cost allocation and affiliate transaction model  
14 used by QCW and its affiliates, I testified that the "arrangement is well vetted over  
15 an extended period of time."<sup>12</sup> My point was simply that over many years there  
16 haven't been any accounting issues raised with the cost allocation and affiliate  
17 transaction model. This is hardly an agreement with Staff's position that there are  
18 "accounting issues," a position with which I strongly disagree.

19 **Q. IN YOUR OPINION, HAS QCW FOLLOWED THE NARUC SYSTEM OF**  
20 **ACCOUNTS IN AN ACCEPTABLE MANNER?**

21 A. Yes. QCW follows the NARUC System of Accounts, and QCW keeps its accounts  
22 and records so as to be able to furnish accurately and expeditiously statements of all  
23 transactions with associated companies.

25 <sup>11</sup> Surrebuttal Testimony of James R. Armstrong ("Armstrong Sb.") at 4:19-21.

26 <sup>12</sup> Jones Rb. at 8:4-5.

1 **Q. WAS QCW ABLE TO PROVIDE, IN A TIMELY MANNER, THE**  
2 **INFORMATION REQUESTED BY STAFF IN SUPPORT OF AFFILIATE**  
3 **TRANSACTIONS?**

4 A. Yes. The Company provided all requested information in a timely manner.  
5 The provided records included, from both QCW and affiliates, general ledger detail,  
6 job cost reports, check requests, check copies, and various other supporting  
7 documentation. To my knowledge, Staff received everything they requested in order  
8 to conduct their work.

9 **Q. WHAT ABOUT QCW'S RECORDING OF CERTAIN ITEMS OF PLANT**  
10 **ON A DEFERRED BASIS?**

11 A. QCW did record some plant constructed by its affiliate on a deferred basis.  
12 The recording of the plant was deferred until the point in time that QCW paid the  
13 affiliate for the plant rather than recoding the plant at the time it was placed into  
14 service. It is this deferred recording of plant that seems to be at the core of Staff's  
15 accounting concerns. As Mr. Soriano explains in his rejoinder testimony, beginning  
16 in 2011, the Robson utility affiliates began implementation of a plan to eliminate the  
17 practice of recording and paying for assets on a deferred basis. By the end of 2014,  
18 recording and payment for all assets previously deferred was completed. Recording  
19 and purchasing assets on a deferred basis is not indicative of the manner in which  
20 QCW and its affiliates record plant transactions today.<sup>13</sup>

21 **Q. WAS STAFF MADE AWARE OF THE DEFERRED TRANSACTIONS IN**  
22 **THIS CASE?**

23 A. Yes. The deferred transactions were discussed at length in my direct testimony.  
24 In addition to disclosing the transactions, we explained that QCW made adjustments  
25

---

26 <sup>13</sup> Soriano Rj. at 5.



1 consistent with the adjustments agreed to by Staff and the Company and approved  
2 by the Commission in the recent Lago rate case where nearly identical deferred  
3 transactions were in place.<sup>14</sup> The net result of the adjustments is that the Company's  
4 books and records are exactly the same as if the plant transactions would have been  
5 recorded at the time the plant was placed into service.

6 **Q. HAS STAFF CHALLENGED THE COMPANY'S PROPOSED**  
7 **TREATMENT OF THESE DEFERRED TRANSACTIONS?**

8 A. With the exception of the dispute over the Well 16 costs, Staff has accepted the  
9 Company's proposed adjustments.

10 **Q. WHAT IS DIFFERENT ABOUT WELL 16?**

11 A. Nothing, except that Staff and the Company disagree about whether costs for Well 16  
12 should be included in the Company's rate base.

13 **Q. IS THE DISPUTE AN ACCOUNTING ISSUE?**

14 A. No it is not. If the well were currently in service, I have no doubt that Staff would  
15 treat Well 16 exactly the same as the other assets recorded on a deferred basis, in this  
16 case and past cases involving affiliates. Instead, it appears to me that Staff doesn't  
17 believe the cost of a non-productive well should be in rate base despite the plain  
18 language of the NARUC System of Accounts.

19 As I stated earlier, Mr. Armstrong's testimony is puzzling to me. There is  
20 nothing different in the Company's accounting practices in this case than in the case  
21 of its affiliate Lago. In the Lago case, the issue of deferred plant purchases was  
22 addressed in a cooperative way. I thought all parties involved understood that the  
23 practice was in the process of being discontinued, but that it would need to be  
24 addressed again in the future as other cases cleaned up the past recording of deferred  
25

26 <sup>14</sup> Direct Testimony of Ray L. Jones at 9-13.

1 plant. Mr. Armstrong was the head of the Finance section in that case too, so I  
2 assume he is aware of this history and in agreement with the resolution put in place  
3 in the Lago case. I just do not understand why now, after successful resolution of  
4 the Lago case and at this late stage in this case, Mr. Armstrong presents this new line  
5 of testimony.

6 Perhaps there is a misunderstanding, but it seems that in this case, instead of  
7 arguing its position on Well 16 costs in a straightforward manner, Staff has created  
8 a red herring with an extensive discussion of resolved accounting issues related to  
9 discontinued practices. I think Staff's position is a solution looking for a problem.  
10 The only question that the Commission should be concerned with is whether or not  
11 the NARUC System of Accounts allows the cost of nonproductive Well 16 to be  
12 included in rate base. When the Company recorded the transaction with its affiliate  
13 is irrelevant as are the remaining supposed QCW accounting issues arising from  
14 Mr. Armstrong's surrebuttal testimony.

15 **B. Staff Recommendations Regarding QCW's Accounting and Recording**  
16 **Practices.**

17 **Q. HOW DO YOU RESPOND TO THE RECOMMENDATIONS MADE BY**  
18 **MR. ARMSTRONG TO INCORPORATE VARIOUS DIRECTIVES**  
19 **RELATED TO THE COMPANY'S ACCOUNTING PRACTICES INTO THE**  
20 **DECISION IN THIS CASE?**

21 A. In my opinion, these directives are entirely unnecessary, punitive in nature, and  
22 unsupported by the facts in this case.

23 **Q. WHAT IS YOUR SPECIFIC RESPONSE TO DIRECTIVE NO. 1**  
24 **REGARDING WRITTEN CONTRACTS?**

25 A. This recommendation is duplicative of the recommendation made by Mr. Cassidy in  
26 his testimonies. The Company has addressed the recommendation in response to

1 Mr. Cassidy and already agreed to enter into a written contract with its affiliate in  
2 the future. There is no need to address it further.<sup>15</sup>

3 **Q. WHAT ABOUT THE RECOMMENDATION FOR A CODE OF CONDUCT?**

4 A. This recommendation is not supported by the facts in this case and unnecessary.  
5 It appears that Staff is asking QCW to essentially adopt Global Water's Code of  
6 Conduct. My understanding is that the Global Water Code of Conduct resulted from  
7 extensive disagreements between Staff, Global Water and numerous interveners  
8 regarding a new and nontraditional business model deployed by Global Water.  
9 Global Water was under severe financial stress that threatened Global Water's ability  
10 to provide basic service to customers. The Code of Conduct was agreed to in  
11 settlement negotiations where presumably the parties were able to reach some level  
12 of understanding regarding what the Code of Conduct would contain. None of these  
13 facts are present in this case. The Global Water Code of Conduct is not a one size  
14 fits all solution for all companies, is not acceptable to QCW, and Staff's  
15 recommendation to just enforce one like it upon QCW, subject to the content being  
16 "acceptable in all respects to Staff,"<sup>16</sup> should be rejected.

17 **Q. WHAT ABOUT THE RECOMMENDATION THAT THE COMPANY'S 2015**  
18 **ANNUAL REPORT REFLECT PROPER ACCRUAL ACCOUNTING AND**  
19 **BE ACCOMPANIED BY AN EXPLANATORY ATTACHMENT?**

20 A. This is also unnecessary. The Company's books and records have always been done  
21 on an accrual basis. Presumably, this requirement is intended to address the deferred  
22 recording of plant. However, as stated by the Company and as shown in  
23 Mr. Armstrong's Exhibit (Staff Surrebuttal 1), this practice ended in 2011 for QCW.

24 \_\_\_\_\_  
25 <sup>15</sup> Jones Rb. at 13:7-8 ("QCW will enter into a written contract with its affiliate governing  
the design and construction of utility plant facilities.").

26 <sup>16</sup> Armstrong Sb. at 12:5.

1 Upon issuance of the Decision in this case, as a routine matter, the Company will  
2 record the adjustments approved by the Commission on its books and report the  
3 updated balances on the 2015 Annual Report to the Commission. No additional  
4 directive from the Commission is required. As for an explanation of the adjustments  
5 made, the decision in this case should fully explain the adjustments adopted. To the  
6 extent Staff requires anything further in the way of explanation or clarification,  
7 the Company is always willing to cooperatively work with Staff and provide needed  
8 documentation.

9 **Q. WHAT IS YOUR RESPONSE TO MR. ARMSTONG'S FINAL**  
10 **RECOMMENDATION REGARDING SPECIAL ACCOUNTING**  
11 **REQUIREMENTS FOR FUTURE EARLY PLANT RETIREMENTS?**

12 A. First, the recommendation is confusing and I don't think I really understand what is  
13 expected. It is also unnecessary and apparently punitive.

14 **Q. WHY DO YOU CONSIDER THE RECOMMENDATION UNNECESSARY?**

15 A. As far as I am aware, there has been exactly one instance in the entire history of  
16 QCW and its affiliates where a material "early" retirement has occurred.  
17 That instance is Well 16. This is why I characterized these recommendations as a  
18 solution looking for a problem. This recommendation will provide nothing of use to  
19 the Commission that is not already available to the Commission. As evidenced in  
20 this case, the Company's current accounting system tracks each asset in extensive  
21 detail separately from all other assets. There were no questions Staff asked about  
22 Well 16 that the Company was unable to answer in detail. The Company's current  
23 accounting system makes all necessary information available for Staff and the  
24 Commission to decide in the context of a rate case if the retirement of any specific  
25 asset warrants treatment under Accounting Instruction 27 H.  
26

1   **Q.   WHAT DO YOU FIND CONFUSING ABOUT THE RECOMMENDATION?**

2   A.   Staff's recommendation requires the Company to conduct some sort of analysis each  
3       time it records a retirement as to whether or not it should create a "potential"  
4       regulatory asset. Apparently, this "potential" regulatory asset could be created when  
5       an asset is retired prior to reaching 75 percent of its original estimate useful life,  
6       as defined by the depreciation rate authorized for the particular asset, if the retirement  
7       resulted in a reduction of the depreciation reserve of the asset class by more than  
8       25 percent. The creation of the "potential" regulatory asset appears to be subject to  
9       an undefined burden of proof for the Company to explain why such early retirements  
10      occurred. Lastly, the creation of the "potential" regulatory asset would be subject to  
11      Staff's recommendations in a future rate case based upon a specific evaluation of the  
12      evidence presented.

13               I find this recommendation extremely confusing. I do not know what Staff  
14      means by a "potential" regulatory asset and I am unsure as to what the Company  
15      would actually need to do in terms of record keeping and accounting to implement  
16      the recommendation to the satisfaction of Staff. Additionally, in the end, the  
17      outcome is no different than in this case. At the time of some future rate case, the  
18      Company would presumably present its "potential" regulatory assets resulting from  
19      an early retirement and recommend some sort of treatment of the asset for  
20      ratemaking purposes. Staff would presumably either agree with the Company or  
21      make an alternative recommendation. Ultimately the Commission would adopt a  
22      decision either creating an actual regulatory asset or recording a normal retirement.  
23      If a regulatory asset is created, the Commission would decide how to amortize the  
24      asset and whether such amortization would be included in the Company's revenue  
25      requirement. It should be obvious that the recommendation by Mr. Armstrong is  
26      unworkable and will not benefit the ratemaking process.

1 **Q. DO YOU HAVE ANY OTHER CONCERNS WITH THIS**  
2 **RECOMMENDATION?**

3 Yes. The recommendation does not appear to fully recognize the impact of the broad  
4 group method of depreciating assets used by the Company. Under the broad group  
5 method, groups of assets with varying individual asset lives are assigned a  
6 depreciation rate for the group; there is no depreciation rate assigned to a particular  
7 asset. The Company would be unable to determine if a specific asset had reached  
8 75 percent of its estimated useful life since there is no depreciation rate for each  
9 specific asset.

10 Mr. Armstrong also makes reference to the Commission's reviewing and  
11 ultimately approving a plan that "could ultimately amortize (and thus remove) the  
12 impacts associated with the early retirement from the books of the utility, instead of  
13 leaving this early retirement impact stranded forever within the utility's accumulated  
14 depreciation reserve balance."<sup>17</sup> Under the broad group method of depreciation,  
15 retirement of an asset simply reduces the accumulated depreciation balance for the  
16 group as a whole. The remaining group would continue to depreciate and the  
17 accumulated depreciation balance for the group would grow and decrease rate base.  
18 No impact of a retirement, no matter how large or how early, is ever stranded. This is  
19 just another reason why these pointless and perplexing recommendations should be  
20 rejected.

21 **Q. DOES THIS CONCLUDE YOUR REJOINDER TESTIMONY?**

22 A. Yes.

23  
24  
25  
26 <sup>17</sup> Armstrong Sb. at 13:15-18.

1 SHAPIRO LAW FIRM, P.C.  
Jay L. Shapiro (No. 014650)  
2 1819 E. Morten Avenue, Suite 280  
Phoenix, Arizona 85020  
3 Telephone (602) 559-9575

4 Attorneys for Quail Creek Water Company, Inc.

5  
6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

7  
8 IN THE MATTER OF THE APPLICATION  
OF QUAIL CREEK WATER COMPANY,  
9 INC., AN ARIZONA CORPORATION,  
FOR A DETERMINATION OF THE FAIR  
10 VALUE OF ITS UTILITY PLANTS AND  
PROPERTY AND FOR INCREASES IN  
11 ITS WATER RATES AND CHARGES FOR  
UTILITY SERVICE BASED THEREON.

DOCKET NO: W-02514A-14-0343

12  
13  
14  
15 **REJOINDER TESTIMONY**  
16 **OF**  
17 **THOMAS J. BOURASSA**  
18 **RATE BASE, INCOME STATEMENT AND RATE DESIGN**

19  
20 **JULY 27, 2015**  
21  
22  
23  
24  
25  
26

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

## TABLE OF CONTENTS

I.	INTRODUCTION, PURPOSE AND SUMMARY OF TESTIMONY.....	1
II.	SUMMARY OF THE COMPANY'S REJOINDER POSITION.....	1
III.	RATE BASE .....	2
A.	PLANT-IN-SERVICE (PIS) .....	3
B.	ACCUMULATED DEPRECIATION (A/D).....	5
C.	ACCUMULATED DEFERRED INCOME TAX (ADIT) .....	8
IV.	INCOME STATEMENT (C SCHEDULES).....	8
V.	RATE DESIGN (H SCHEDULES) .....	9
A.	PROPOSED RATES .....	9
B.	REJOINDER TO STAFF SURREBUTTAL TESTIMONY ON RATE DESIGN .....	9



1    **I.    INTRODUCTION, PURPOSE AND SUMMARY OF TESTIMONY.**

2    **Q.    PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3    A.    My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive,  
4           Phoenix, Arizona 85029.

5    **Q.    ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

6    A.    I am testifying on behalf of the Applicant Quail Creek Water Company, Inc.  
7           ("QCW" or "Company").

8    **Q.    ARE YOU THE SAME THOMAS J. BOURASSA THAT FILED DIRECT  
9           AND REBUTTAL TESTIMONIES IN THIS PROCEEDING?**

10   A.    Yes.

11   **Q.    HAVE YOU REVIEWED THE SURREBUTTAL FILING MADE BY STAFF?**

12   A.    Yes.

13   **Q.    WHAT IS THE PURPOSE OF THIS REJOINDER TESTIMONY?**

14   A.    To respond to Staff's surrebuttal testimony filed on July 1, 2015 in this rate case.  
15           More specifically, this first volume of my rejoinder testimony relates to rate base,  
16           income statement and rate design for QCW. In a second, separate volume of my  
17           rejoinder testimony, I present an update to the Company's requested cost of capital  
18           as well as provide responses to Staff's surrebuttal testimony on the cost of capital,  
19           the rate of return applied to the fair value rate base, and the determination of  
20           operating income.

21   **II.   SUMMARY OF THE COMPANY'S REJOINDER POSITION.**

22   **Q.    WHAT REVENUE INCREASE IS QCW PROPOSING IN ITS REJOINDER  
23           FILING?**

24   A.    The Company proposes a total revenue requirement of \$1,247,640, which constitutes  
25           an increase in revenues of \$402,921, or 47.70 percent over adjusted test year  
26           revenues. This is the same as the Company's rebuttal revenue requirement.

1 Q. HOW DOES THE COMPANY'S REQUEST COMPARE TO STAFF'S  
2 RECOMMENDATIONS AT THIS STAGE OF THE PROCEEDING?

3 A. The proposed revenue requirements and proposed rate increases are as follows:

	<u>Revenue Requirement</u>	<u>Revenue Incr.</u>	<u>% Increase</u>
4 Staff-Surrebuttal	\$1,128,014	\$283,295	33.54%
5 QCW-Rejoinder	\$1,247,640	\$402,921	47.70%

6  
7 The difference between QCW and Staff on the revenue requirement is due  
8 almost entirely to the different rate base recommendations, depreciation expense,  
9 and recommended rate of return. In addition, the Company and Staff disagree on  
10 Staff's various recommendations for accounting and other Commission-directives.  
11 Mr. Jones also addresses these latter issues in his rejoinder testimony.

12 **III. RATE BASE.**

13 Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE  
14 BASE RECOMMENDATIONS?

15 A. Yes, at this stage of the proceeding the rate bases proposed by QCW and Staff are as  
16 follows:

	<u>OCRB</u>	<u>FVRB</u>
17 Staff-Surrebuttal	\$ 3,196,580	\$ 3,196,580
18 QCW-Rejoinder	\$ 3,674,950	\$ 3,674,950

19  
20 Q. IS THE COMPANY PROPOSING ANY ADDITIONAL ADJUSTMENTS TO  
21 RATE BASE AT THIS STAGE OF THE PROCEEDING?

22 A. No. The Company's proposed adjustments to the rate base were discussed in my  
23 direct and rebuttal testimonies. The adjustments to OCRB are detailed on Rejoinder  
24 Schedules B-2, pages 3 through 5. Rejoinder Schedule B-2, pages 1 and 2,  
25 summarize the Company's proposed adjustments and the rebuttal OCRB.  
26

1           A.     PLANT-IN-SERVICE (PIS).

2       Q.     **PLEASE DISCUSS THE DIFFERENCE BETWEEN THE RECOMMENDED**  
3           **PIS BALANCES OF QCW AND STAFF.**

4       A.     The Company recommends a PIS balance of \$7,825,043, whereas Staff recommends  
5           a PIS balance of \$7,571,022 – a difference of \$254,021. I discussed the reasons for  
6           these differences in my rebuttal testimony.<sup>1</sup> In summary, the differences are:

7           1.     Staff does not recognize the capitalization of \$507,653<sup>2</sup> of costs  
8           related to Well 16 or the subsequent Well 16 related of \$258,211. As a  
9           result, the Company's PIS balance is \$249,442 higher than Staff's;  
10          and

11          2.     Staff has not adopted the Company's proposed correction to PIS of  
12           \$4,590, reflecting a correction to the reported retirements for account  
13           311- Pumping Equipment in 2011 and related to Well 16. As a result,  
14           the Company's PIS balance is \$4,590 higher than Staff's.

15       Q.     **DO YOU HAVE A RESPONSE TO THE SURREBUTTAL TESTIMONY OF**  
16           **STAFF REGARDING THE WELL 16 COSTS?**

17       A.     Beyond agreeing with Mr. Jones' rejoinder testimony, wherein he explains why  
18           Staff's position is flawed and its recommendations overreaching and unnecessary,  
19           I would emphasize the following points.

20                 First, based on the totality of the facts and circumstances regarding Well 16,  
21           I firmly believe that the National Association of Regulatory Utility Commissioners  
22           ("NARUC") Uniform System of Accounts ("USOA") accounting rules and  
23           instructions apply. Those rules allow for recovery of the costs of non-productive

24           

---

  
25           <sup>1</sup> See Rebuttal Testimony of Thomas J. Bourassa ("Bourassa Rb.") at 4-8.

26           <sup>2</sup> Originally \$510,209 but the Company and Staff both remove \$2,552 of capitalized  
          interest. See Bourassa Rb. at 6.

1 wells. In my view, Staff is attempting to obfuscate the intent of those rules by  
2 injecting extraneous NARUC affiliate guidelines, deferral accounting standards, and  
3 trumped up accusations that QCW's accounting threatens ratepayers in this case.  
4 Staff does not and cannot deny that QCW would be in the exact same place today on  
5 all accounting and recording matters had a non-affiliate company constructed the  
6 plant. The only difference might be that had a non-affiliate constructed it, the cost  
7 could have been much higher because a non-affiliate would have charged overhead  
8 and profit, increasing the cost of the plant.

9 **Q. HOW CAN THE COMMISSION BE CERTAIN THAT RATEPAYERS ARE**  
10 **NOT HARMED BY THE PRACTICES OF QCW AND ITS AFFILIATES?**

11 A. A better question is what legitimate reason has Staff given the Commission to raise  
12 such concerns? The answer is none. Ratepayers have never subsidized the affiliate  
13 through the plant transactions with QCW and were never harmed by the affiliate  
14 transactions. They have, as I just stated above, benefited through lower cost plant.<sup>3</sup>  
15 Further, whether the deferred liabilities were properly recorded in the past or not,  
16 there is no plant transaction detail that Staff has requested that was not provided.  
17 There are no open questions about the plant costs that I am aware of, and the  
18 Company and its affiliates have abandoned the practice of deferring the costs of plant  
19 built by affiliates.<sup>4</sup> In my view, Staff's complaints about the proper recording of  
20 deferred liabilities are much ado about nothing. Staff has been well aware of the  
21 framework used by QCW and its affiliates and has never complained about the  
22 accounting of or use of deferred payment for plant in the recent cases for QCW's  
23 affiliates, or over the past several decades.

24  
25 <sup>3</sup> Bourassa Rb. at 5:10-19. *See also* Rebuttal Testimony of Ray L. Jones at 8-9; Rejoinder  
Testimony of Ray L. Jones at 4:15 – 5:2.

26 <sup>4</sup> Rejoinder Testimony of Steven Soriano at 4:19 – 5:16.

1 In the end, I am forced to agree with Mr. Jones. It certainly appears that Staff  
2 simply does not like the fact that NARUC USOA allows for the recovery of the costs  
3 of non-productive wells and has gone on the offensive to keep this Company from  
4 that recovery on investment. In a state heavily reliant on groundwater but always  
5 facing the risk of not finding it, Staff's view leads to a pretty chilling policy message  
6 from my perspective. I certainly would have to counsel my utility clients that if you  
7 pay to search for water supplies you better find water no matter what it costs.

8 **B. ACCUMULATED DEPRECIATION (A/D).**

9 **Q. PLEASE DISCUSS THE DIFFERENCE BETWEEN THE RECOMMENDED**  
10 **A/D BALANCES OF QCW AND STAFF.**

11 A. The Company recommends an A/D balance of \$2,370,517, whereas Staff  
12 recommends an A/D balance of \$2,586,909 – a difference of \$216,392. I discussed  
13 the differences in my rebuttal testimony. In summary, the differences are:

- 14 1. Staff uses a 5.0 percent depreciation rate for the 15 months subsequent  
15 to the last test year and up to the date of the last decision, whereas the  
16 Company uses 4.08 percent. The resulting A/D difference is that  
17 Staff's A/D balance is higher than the Company's by approximately  
18 \$10,008.
- 19 2. Staff does not recognize any of the Well 16 costs or the retirement of  
20 the Well 16 pumping equipment. The resulting difference is that  
21 Staff's A/D balance is higher than the Company's by \$258,221 related  
22 to the retirements, and that Staff's A/D balance is lower than the  
23 Company's by \$45,796 related to costs that were not retired.
- 24 3. Staff has not recognized the Company's rebuttal correction to A/D for  
25 a retirement amount in 2011. As a result Staff's A/D balance is lower  
26 than the Company's by \$5,058.

1           4.     Staff's A/D reflects "fully depreciated" vintage year PIS balances  
2                 which results in Staff's A/D balance being lower than the Company's  
3                 by approximately \$984.

4     **Q.   HAS STAFF CORRECTED THE DEPRECIATION RATE FROM**  
5     **5.0 PERCENT TO 4.08 PERCENT FOR THE 15 MONTHS SUBSEQUENT**  
6     **TO THE PRIOR TEST YEAR AND THROUGH THE DATE OF THE PRIOR**  
7     **DECISION?**

8     A.   No. Staff claims that it continues to rely on the reasons set forth in its direct  
9           testimony.<sup>5</sup> Staff stated in its direct testimony that it assumed a 5 percent  
10           depreciation rate because that was the typical depreciation rate being adopted at the  
11           time, and Staff could not find evidence of the Commission authorizing a depreciation  
12           rate.<sup>6</sup>

13    **Q.   BUT DIDN'T YOU TESTIFY THAT 4.08 PERCENT WAS USED TO TRUE-**  
14    **UP THE A/D BALANCE AT THE END OF THE TEST YEAR IN THE PRIOR**  
15    **CASE, AND THAT THE COMMISSION ADOPTED THE A/D BALANCE IN**  
16    **ITS DECISION?**

17    A.   Yes, and I referenced the Staff Report and the decision from the prior case in my  
18           rebuttal testimony.<sup>7</sup> It appears Staff could not find the evidence because Staff  
19           ignored my testimony.

20    **Q.   DID THE COMMISSION SPECIFICALLY STATE AN AUTHORIZED**  
21    **DEPRECIATION RATE IN THE PRIOR DECISION?**

22    A.   No, which is hardly unusual. The Commission doesn't always specify the adopted  
23

24    <sup>5</sup> Surrebuttal Testimony of John A. Cassidy (Revenue Requirement and Rate Design)  
25    ("Cassidy Sb.") at 6:5-10.

26    <sup>6</sup> Direct Testimony of John A. Cassidy at 18-19.

<sup>7</sup> Bourassa Rb. at 10:13-14 & n.19.

1 depreciation rate(s) and one often has to go back through the record in the prior case  
2 to find out what depreciation rate(s) was (were) used to true-up A/D through the end  
3 of the test year. It has always been my experience that if the Commission adopts an  
4 A/D balance that used a particular depreciation rate through the end of the test year,  
5 then by default, the Commission has approved the depreciation rate that was used.  
6 Until now, I have never had a dispute with Staff under similar circumstances so I am  
7 understandably confused by Staff's unwillingness to acknowledge the evidence in  
8 this case.

9 **Q. DO YOU HAVE ANY COMMENT WITH RESPECT TO THE**  
10 **DIFFERENCES IN THE A/D BALANCES RELATED TO THE WELL 16**  
11 **COSTS AND RETIREMENTS?**

12 A. No. I discussed the dispute between Staff and the Company regarding Well 16  
13 previously on pages 3 and 5. The A/D difference identified above is a direct result  
14 of this dispute.

15 **Q. IS THE CORRECTION TO A/D FOR \$5,058 ALSO RELATED TO**  
16 **WELL 16?**

17 A. Yes.

18 **Q. DID STAFF PROVIDE ANY TESTIMONY REGARDING THE**  
19 **DIFFERENCE IN A/D DUE TO STAFF'S "FULLY DEPRECIATED"**  
20 **VINTAGE YEAR PIS BALANCES?**

21 A. No. Accordingly, I cannot provide anything in addition to the response I provided  
22 in my rebuttal testimony.<sup>8</sup>

23  
24  
25  
26 <sup>8</sup> Bourassa Rb. at 12:3-14.

1           **C.    ACCUMULATED DEFERRED INCOME TAX (ADIT).**

2           **Q.    PLEASE DISCUSS THE DIFFERENCE BETWEEN THE RECOMMENDED**  
3           **ADIT BALANCES OF QCW AND STAFF.**

4           A.    The Company recommends an ADIT liability balance of \$1,063,597, whereas Staff  
5           recommends an A/D balance of \$1,071,664 – a difference of \$8,128. Staff admits  
6           that it should have made an adjustment to ADIT, but asserts the Company did not  
7           provide Staff with the necessary information.<sup>9</sup>

8           **Q.    WHAT ADDITIONAL INFORMATION IS NEEDED BY STAFF?**

9           A.    I am not sure. Staff never requested any additional information.

10          **Q.    DO YOU BELIEVE ANY ADDITIONAL INFORMATION IS NECESSARY?**

11          A.    No. The ADIT computation methodology set forth on the Company's ADIT  
12          schedule (Rejoinder Schedule B-2, pages 5 and 5.1) provides all the necessary  
13          information to compute the ADIT balance. The same information has been available  
14          throughout this proceeding. One needs only to reflect changes to the PIS, CIAC,  
15          AIAC, and tax balances based upon the party's recommendations in the case. This is  
16          how I determined that, based upon the Staff's recommendations, the Staff ADIT  
17          balance is overstated by \$92,000.<sup>10</sup>

18          **IV.   INCOME STATEMENT (C SCHEDULES).**

19          **Q.    WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**  
20          **ADJUSTMENTS TO REVENUES?**

21          A.    The Company rejoinder adjustments to revenues and/or expenses are detailed on  
22          Rejoinder Schedule C-2, pages 1-9. The rejoinder income statement with  
23  
24

25                 <sup>9</sup> Cassidy Sb. at 6:20-21.

26                 <sup>10</sup> Bourassa Rb. at 13:1-8.



adjustments is summarized on Rejoinder Schedule C-1, pages 1-2. The Company is not proposing any changes to the adjustments it proposed in its rebuttal testimony.<sup>11</sup>

**Q. ARE THERE ANY DISAGREEMENTS WITH STAFF ON RECOMMENDED ADJUSTMENTS TO REVENUES AND OR EXPENSES?**

A. No. Differences in each of the parties' recommended depreciation and amortization expense are due to differences in recommended depreciable PIS balances. The difference in property tax expense and income tax expense is due to differences in the parties' recommended revenues.

**V. RATE DESIGN (H SCHEDULES).**

**A. PROPOSED RATES.**

**Q. WHAT ARE QCW'S PROPOSED RATES FOR WATER SERVICE?**

A. The Company's proposed rates are shown on Rejoinder Schedule H-3, pages 1 and 2.

**Q. WHAT WILL BE THE 5/8X3/4 INCH METERED CUSTOMER AVERAGE MONTHLY BILL UNDER THE COMPANY'S REBUTTAL PROPOSED RATES?**

A. As shown on Schedule H-2, page 1, the average monthly bill under proposed rates for a 5/8x3/4 inch metered customer using an average 5,725 gallons is \$43.33 – a \$12.30 increase over the present monthly bill or a 39.64 percent increase.

**B. REJOINDER TO STAFF SURREBUTTAL TESTIMONY ON RATE DESIGN.**

**Q. HAS STAFF MODIFIED ITS RATE DESIGN BASED UPON YOUR REBUTTAL TESTIMONY?**

A. Yes. Staff has modified its break-over points, which now generally agree with the Company's break-over points.<sup>12</sup>

<sup>11</sup> Bourassa Rb. at 13-14.

<sup>12</sup> Break-over points are the same except for the 6 inch meter. The Company recommends

1 **Q. DO THE STAFF AND COMPANY RATE DESIGNS PROVIDE FOR**  
2 **SIMILAR REVENUE RECOVERY BETWEEN THE MONTHLY FIXED**  
3 **CHARGES AND THE COMMODITY RATES?**

4 A. Yes. The Company and the Staff rate designs provide approximately 45 percent  
5 revenue recovery from the monthly fixed charges and 55 percent from the  
6 commodity rates. Revenue recovery among the commodity rates is also similar.<sup>13</sup>

7 **Q. DOES THIS CONCLUDE YOUR REJOINDER TESTIMONY?**

8 A. Yes.  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24

25 a break-over point of 333,000 gallons whereas Staff recommends 334,000 gallons.

26 <sup>13</sup> See Exhibit TJB-RJ1.

# **A-C & H SCHEDULES**

**Quail Creek Water Company**  
Test Year Ended December 31, 2013  
Computation of Increase in Gross Revenue  
Requirements As Adjusted

Exhibit  
Rejoinder Schedule A-1  
Page 1  
Witness: Bourassa

Line No.									
1	Fair Value Rate Base				\$	3,674,950			
2									
3	Adjusted Operating Income					125,680			
4									
5	Current Rate of Return					3.42%			
6									
7	Required Operating Income				\$	367,495			
8									
9	Required Rate of Return on Fair Value Rate Base					10.00%			
10									
11	Operating Income Deficiency				\$	241,815			
12									
13	Gross Revenue Conversion Factor					1.6662			
14									
15	Increase in Gross Revenue Requirement				\$	402,921			
16									
17									
18	Adjusted Test Year Revenues				\$	844,719			
19	Increase in Gross Revenue Requirement				\$	402,921			
20	Proposed Revenue Requirement				\$	1,247,640			
21	% Increase					47.70%			
22									
23	<b>Customer</b>								
24	<b>Classification</b>								
25	5/8x3/4 Inch Residential		Present Rates		\$	654,321		Proposed Rates	
26	3/4 Inch Residential				\$	-		\$	283,442
27	1 Inch Residential					64,595			43.32%
28	1 1/2 Inch Residential					-			0.00%
29	2 Inch Residential					97,874			51.52%
30						-			0.00%
31	5/8x3/4 Inch Commercial					3,424			70.14%
32	3/4 Inch Commercial					-			
33	1 Inch Commercial					20,007			61.30%
34	1 1/2 Inch Commercial					-			0.00%
35	2 Inch Commercial					11,118			85.53%
36	3 Inch Commercial					20,627			87.75%
37	6 Inch Commercial					9,942			74.30%
38						28,157			0.00%
39	5/8x3/4 Inch Irrigation					-			0.00%
40	3/4 Inch Irrigation					-			0.00%
41	1 Inch Irrigation					2,514			77.04%
42	1 1/2 Inch Irrigation					3,957			79.96%
43	2 Inch Irrigation					9,033			83.25%
44	3 Inch Irrigation					-			0.00%
45	4 Inch Irrigation					6,753			59.62%
46						10,780			
47	Revenue Annualization				\$	13,906			49.11%
48									
49									
50									
51	<b>Subtotal</b>				\$	837,974		\$	1,240,843
52								\$	402,869
53	Other Water Revenues				\$	7,353		\$	-
54	Reconciling Amount					(608)			0.00%
55	Rounding					-			-8.55%
56	<b>Total of Water Revenues</b>				\$	844,719		\$	1,247,640
57								\$	402,921
58									47.70%

SUPPORTING SCHEDULES:  
B-1  
C-1  
C-3  
H-1

**Quail Creek Water Company**  
Test Year Ended December 31, 2013  
Summary of Rate Base

Exhibit  
Rejoinder Schedule B-1  
Page 1  
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	\$ 7,825,043	\$ 7,825,043
3	Less: Accumulated Depreciation	<u>2,370,517</u>	<u>2,370,517</u>
4			
5	Net Utility Plant in Service	\$ 5,454,526	\$ 5,454,526
6			
7	<u>Less:</u>		
8	Advances in Aid of Construction	-	-
9			
10	Contributions in Aid of Construction	820,205	820,205
11			
12	Accumulated Amortization of CIAC	(284,447)	(284,447)
13			
14	Customer Meter Deposits	180,221	180,221
15	Custmer Security Deposits	-	-
16	Accumulated Deferred Income Tax	1,063,597	1,063,597
17			
18			
19	<u>Plus:</u>		
20			
21	Deferred Regulatory Assets	-	-
22	Deferred Tax Assets	-	-
23	Allowance for Working Capital	-	-
24			
25			
26	Total Rate Base	<u>\$ 3,674,950</u>	<u>\$ 3,674,950</u>
27			
28			
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			
41	<u>SUPPORTING SCHEDULES:</u>		
42	B-2		
43	B-3		
44	B-5		
45			
46			
47			
48			
49			
50			

**Quail Creek Water Company**  
Test Year Ended December 31, 2013  
Original Cost Rate Base Proforma Adjustments

Exhibit  
Rejoinder Schedule B-2  
Page 1  
Witness: Bourassa

Line No.		Adjusted at End of Test Year	Proforma Adjustment	Rebuttal Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	\$ 7,819,192	5,851	\$ 7,825,043
3				
4	<b>Less:</b>			
5	Accumulated			
6	Depreciation	2,352,796	17,720	2,370,517
7				
8				
9	Net Utility Plant			
10	in Service	\$ 5,466,396		\$ 5,454,526
11				
12	<b>Less:</b>			
13	Advances in Aid of			
14	Construction	-	-	-
15				
16	Contributions in Aid of			
17	Construction - Gross	820,205	-	820,205
18				
19	Accumulated Amortization of CIAC	(284,447)	-	(284,447)
20				
21	Customer Meter Deposits	180,221	-	180,221
22	Customer Security Deposits	-	-	-
23	Accumulated Deferred Income Tax	1,071,725	(8,128)	1,063,597
24				-
25				-
26				
27	<b>Plus:</b>			
28				
29	Deferred Regulatory Assets	-		-
30	Prepayments	-		-
31	Materials and Supplies	-		-
32	Working capital	-	-	-
33				-
34				
35	Total	<u>\$ 3,678,692</u>		<u>\$ 3,674,950</u>

SUPPORTING SCHEDULES:  
B-2, pages 2

RECAP SCHEDULES:  
B-1

**Quail Creek Water Company**  
Test Year Ended December 31, 2013  
Original Cost Rate Base Proforma Adjustments

Exhibit  
Rejoinder Schedule B-2  
Page 2  
Witness: Bourassa

Line No.		Adjusted at End of Test Year	1	2	Proforma Adjustments			Intentionally Left Blank	5	Rebuttal Adjusted at end of Test Year
					Plant-in- Service	Accumulated Depreciation	ADIT			
1	Gross Utility									
2	Plant in Service	\$ 7,819,192	5,851							\$ 7,825,043
3										
4	<b>Less:</b>									
5	Accumulated									
6	Depreciation	2,352,796		17,720						2,370,517
7										
8										
9	Net Utility Plant									
10	in Service	\$ 5,466,396	\$ 5,851	\$ (17,720)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,454,526
11										
12	<b>Less:</b>									
13	Advances in Aid of									
14	Construction	-								-
15										
16	Contributions in Aid of									
17	Construction (CIAC)	820,205								820,205
18		(284,447)								(284,447)
19	Accumulated Amort of CIAC									
20										
21	Customer Meter Deposits	180,221								180,221
22	Customer Security Deposits	-								-
23	Accumulated Deferred Income Taxes (ADIT)	1,071,725					(8,128)			1,063,597
24										
25										
26	<b>Plus:</b>									
27										
28	Deferred Regulatory Assets									
29	Prepayments	-								-
30	Materials and Supplies									
31	Allowance for Cash Working Capital									
32										
33	Total	\$ 3,678,692	\$ 5,851	\$ (17,720)	\$ 8,128	\$ -	\$ -	\$ -	\$ -	\$ 3,674,950
34										
35										
36										

**SUPPORTING SCHEDULES:**  
B-2, pages 3-5

**RECAP SCHEDULES:**  
B-1

**Quail Creek Water Company**  
Test Year Ended December 31, 2013  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1

Exhibit  
Rejoinder Schedule B-2  
Page 3  
Witness: Bourassa

Line No.		Plant-in-Service										
		A					B		Adjustments		E	
		Remove Capitalized Interest					Capitalize New Source Testing		Retirement Correction 1998		Intentionally Left Blank	
									Adjustments to Reconcile Plant to Reconstruction			

SUPPORTING SCHEDULES  
B-2, pages 3.1 to 3.4



**Quail Creek Water Company**  
Test Year Ended December 31, 2013  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1 - A

Exhibit  
Rejoinder Schedule B-2  
Page 3.1  
Witness: Bourassa

Line

No.

1 Remove Capitalized Interest

2

3

4

Acct.

Original

5

No. Description

Cost

6

304 Structures and Improvements

(18)

7

307 Wells and Springs

(2,561)

8

311 Electric Pumping Equipment

(173)

9

10

TOTALS

\$ (2,752)

11

12

13

14

15

16

17

18

SUPPORTING SCHEDULE

19

Testimony

20

Staff Schedule JAC-5b

**Quail Creek Water Company**  
Test Year Ended December 31, 2013  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1 - B

Exhibit  
Rejoinder Schedule B-2  
Page 3.2  
Witness: Bourassa

Line

No.

1 Capitalize New Source Water Testing

2

3

4

Acct.

Orginal

5

No. Description

Cost

6

307 Wells and Springs

4,013

7

8

9

10

11

12

13

14

15

TOTALS

\$ 4,013

16

17

18

SUPPORTING SCHEDULE

19

Testimony

20

Staff Schedule JAC-5c

**Quail Creek Water Company**  
Test Year Ended December 31, 2013  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1 - B

Exhibit  
Rejoinder Schedule B-2  
Page 3.3  
Witness: Bourassa

Line

No.

1 Correction to Retirement in 2011

2

3

4

Acct.

Per

Per

PIS

5

No. Description

Year

Direct

Rebuttal

Adjustment

6

311 Electric Pumping Equipment

2011

303,221

298,631

4,590

7

8

9

10

11

12

TOTALS

\$ 4,590

13

14

15

16

17

18

SUPPORTING SCHEDULE

19

Testimony

20

**Quail Creek Water Company**  
Test Year Ended December 31, 2013  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 1 - D

Exhibit  
Rejoinder Schedule B-2  
Page 3.4  
Witness: Bourassa

Line  
No.

Reconciliation of Plant to Plant Reconstruction

Acct.		Adjusted Cost per Direct	B-2 Adjustments	Adjusted Cost per Rebuttal	Plant Per Reconstruction	Plant Adjustment
No.	Description					
301	Organization Cost	\$ 37,295	\$ -	\$ 37,295	\$ 37,295	\$ -
302	Franchise Cost	-	-	-	-	-
303	Land and Land Rights	92,895	-	92,895	92,895	-
304	Structures and Improvements	75,442	(18)	75,424	75,424	-
305	Collecting and Impounding Res.	-	-	-	-	-
306	Lake River and Other Intakes	-	-	-	-	-
307	Wells and Springs	834,248	1,452	835,700	835,700	-
308	Infiltration Galleries and Tunnels	-	-	-	-	-
309	Supply Mains	-	-	-	-	-
310	Power Generation Equipment	37,618	-	37,618	37,618	-
311	Electric Pumping Equipment	1,137,275	4,417	1,141,692	1,141,692	-
320	Water Treatment Equipment	-	-	-	-	-
320.1	Water Treatment Plant	-	-	-	-	-
320.2	Chemical Solution Feeders	-	-	-	-	-
330	Dist. Reservoirs & Standpipe	-	-	-	-	-
330.1	Storage tanks	856,574	-	856,574	856,574	-
330.2	Pressure Tanks	32,236	-	32,236	32,236	-
331	Trans. and Dist. Mains	3,194,161	-	3,194,161	3,194,161	-
333	Services	891,232	-	891,232	891,232	-
334	Meters	90,315	-	90,315	90,315	-
335	Hydrants	477,182	-	477,182	477,182	-
336	Backflow Prevention Devices	-	-	-	-	-
339	Other Plant and Misc. Equip.	-	-	-	-	-
340	Office Furniture and Fixtures	2,071	-	2,071	2,071	-
340.1	Computers and Software	-	-	-	-	-
341	Transportation Equipment	-	-	-	-	-
342	Stores Equipment	-	-	-	-	-
343	Tools and Work Equipment	2,399	-	2,399	2,399	-
344	Laboratory Equipment	-	-	-	-	-
345	Power Operated Equipment	-	-	-	-	-
346	Communications Equipment	57,194	-	57,194	57,194	-
347	Miscellaneous Equipment	-	-	-	-	-
348	Other Tangible Plant	1,056	-	1,056	1,056	-
	Plant Held for Future Use	-	-	-	-	-
	TOTALS	\$ 7,819,192	\$ 5,851	\$ 7,825,043	\$ 7,825,043	\$ -

SUPPORTING SCHEDULE

B-2, pages 3.1 through 3.3

B-2, pages 3.5 through 3.21

**Quail Creek Water Company**

Test Year Ended December 31, 2013

Reconciliation of Plant Additions, Retirements and Accumulated Depreciation  
After Consideration of Deferred Purchases

Exhibit  
Rejoinder Schedule B-2  
Page 3.5  
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Per Decision No. 61611 - 04/01/1999				Current Books					
			[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]		
			Allowed Deprec. Rate	Book Dec. 61611 Adjust-ments	Adjusted Plant at 12/31/1997	Dec. 61611 Accum Depr 12/31/1997	Net Plant 12/31/1997	Book Plant at 12/31/1997	Accum Depr 12/31/1997	Net Plant 12/31/1997		
1	301	Organization Cost	4.08%	37,295	11+12	37,295	12,434	24,861	37,295	12,434	24,861	61+7
2	302	Franchise Cost	0.00%									
3	303	Land and Land Rights	0.00%									
4	304	Structures & Improvements	4.08%	65,000		65,000		65,000	65,000			65,000
5	305	Collecting & Impounding Reservoirs	4.08%									
6	306	Lake, River, Canal Intakes	4.08%									
7	307	Wells & Springs	4.08%									
8	308	Infiltration Galleries	4.08%	162,035		162,035	55,689	106,346	162,035	55,689		106,346
9	309	Raw Water Supply Mains	4.08%									
10	310	Power Generation Equipment	4.08%									
11	311	Pumping Equipment	4.08%									
12	320	Water Treatment Equipment	4.08%	55,410		55,410	49,974	5,436	55,410	49,974		5,436
13	320.1	Water Treatment Plants	4.08%									
14	320.2	Solution Chemical Feeders	4.08%									
15	330	Distribution Reservoirs & Standpipes	4.08%	180,280		180,280	37,566	142,714				
16	330.1	Storage Tanks	4.08%									
17	330.2	Pressure Tanks	4.08%						180,280	37,566		142,714
18	331	Transmission & Distribution Mains	4.08%									
19	333	Services	4.08%	446,017		446,017	109,957	336,060	446,017	109,957		336,060
20	334	Meters	4.08%	3,171		3,171	1,322	1,849	3,171	1,322		1,849
21	335	Hydrants	4.08%	1,698		1,698	1,698		1,698	1,698		
22	336	Backflow Prevention Devices	4.08%	23,325		23,325	6,482	16,843	23,325	6,482		16,843
23	339	Other Plant & Misc Equipment	4.08%									
24	340	Office Furniture & Equipment	4.08%									
25	340.1	Computers & Software	4.08%									
26	341	Transportation Equipment	4.08%									
27	342	Stores Equipment	4.08%	6,000		6,000	6,000		6,000	6,000		
28	343	Tools, Shop & Garage Equipment	4.08%									
29	344	Laboratory Equipment	4.08%									
30	345	Power Operated Equipment	4.08%									
31	346	Communication Equipment	4.08%									
32	347	Miscellaneous Equipment	4.08%									
33	348	Other Tangible Plant	4.08%	1,056		1,056	352	704	1,056	352		704
34												
35												
36												
37												
38												
39												
40												
41												
42												
43												
44												
45												
46												
47												
48												
49												
50												
51												
52												
53												
54												
55												
56												
57												
58												
59												
60												
61												
62												
63												
64												
65												
66												
67												
68												
69												
70												
71												
72												
73												
74												
75												
76												
77												
78												
79												
80												
81												
82												
83												
84												
85												
86												
87												
88												
89												
90												
91												
92												
93												
94												
95												
96												
97												
98												
99												
100												
101												
102												
103												
104												
105												
106												
107												
108												
109												
110												
111												
112												
113												
114												
115												
116												
117												
118												
119												
120												
121												
122												
123												
124												
125												
126												
127												
128												
129												
130												
131												
132												
133												
134												
135												
136												
137												
138												
139												
140												
141												
142												
143												
144												
145												
146												
147												
148												
149												
150												
151												
152												
153												
154												
155												
156												
157												
158												
159												
160												
161												
162												
163												
164												
165												
166												
167												
168												
169												
170												
171												
172												
173												
174												
175												
176												
177												
178												
179												
180												
181												
182												
183												
184												
185												
186												
187												
188												

**Quail Creek Water Company**

Test Year Ended December 31, 2013

Reconciliation of Plant Additions, Retirements and Accumulated Depreciation  
After Consideration of Deferred Purchases

Exhibit  
Rejoinder Schedule B-2  
Page 3.6  
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	1998									
				Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-	1,522	37,295	13,956	23,340
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	65,000	-	65,000
4	304	Structures & Improvements	4.08%	-	-	-	-	-	-	-	-	-	-
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-	-	-	-	-
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-	6,611	162,035	62,300	99,735
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-	2,261	55,410	52,235	3,175
13	320.1	Water Treatment Plants	4.08%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	4.08%	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	4.08%	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	4.08%	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-	7,355	180,280	44,921	135,359
18	331	Transmission & Distribution Mains	4.08%	-	-	-	-	-	-	-	-	-	-
19	333	Services	4.08%	-	-	-	-	-	-	18,198	446,017	128,155	317,862
20	334	Meters	4.08%	-	-	-	-	-	-	129	3,171	1,451	1,719
21	335	Hydrants	4.08%	-	-	-	-	-	-	-	1,698	1,698	-
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-	952	23,325	7,434	15,891
23	339	Other Plant & Misc Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	4.08%	-	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
27	342	Stores Equipment	4.08%	-	-	-	-	-	-	-	6,000	6,000	-
28	343	Tools, Shop & Garage Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-	43	1,056	395	660
34				-	-	-	-	-	-	-	-	-	-
35		TOTAL		-	-	-	-	-	-	37,070	981,285	318,544	662,741

Quail Creek Water Company

Test Year Ended December 31, 2013

Reconciliation of Plant Additions, Retirements and Accumulated Depreciation  
After Consideration of Deferred Purchases

Exhibit  
Rejoinder Schedule B-2  
Page 3.7  
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	1999					Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
				Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Adjusted Plant Retirements					
1	301	Organization Cost	4.08%	-	-	-	-	-	-	1,522	37,295	15,477	21,818
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	65,000	-	65,000
4	304	Structures & Improvements	4.08%	-	-	-	-	-	-	-	-	-	-
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-	6,611	162,035	68,911	93,124
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-	2,261	55,410	54,495	915
13	320.1	Water Treatment Plants	4.08%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	4.08%	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	4.08%	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	4.08%	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-	7,355	180,280	52,277	128,003
18	331	Transmission & Distribution Mains	4.08%	-	-	-	-	-	-	-	-	-	-
19	333	Services	4.08%	-	-	-	-	-	-	18,198	446,017	146,352	299,665
20	334	Meters	4.08%	-	-	-	-	-	-	129	3,171	1,581	1,590
21	335	Hydrants	4.08%	-	-	-	-	-	-	-	1,698	1,698	-
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-	952	23,325	8,385	14,939
23	339	Other Plant & Misc Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	4.08%	-	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
27	342	Stores Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	4.08%	1,750	-	1,750	-	-	-	-	1,750	36	1,714
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-	-	-	-	-
34				-	-	-	-	-	-	43	1,056	438	617
35		TOTAL		1,750	-	1,750	-	6,000	-	37,106	977,035	349,650	627,385

Quail Creek Water Company

Test Year Ended December 31, 2013

Reconciliation of Plant Additions, Retirements and Accumulated Depreciation  
After Consideration of Deferred Purchases

Exhibit  
Rejoinder Schedule B-2  
Page 3.8  
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2000					Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
				Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirement Adjustments	Adjusted Plant Retirements					
1	301	Organization Cost	4.08%	-	-	-	-	-	-	1,522	37,295	16,999	20,296
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	-	-
4	304	Structures & Improvements	4.08%	4,894	-	4,894	-	-	-	-	65,000	-	65,000
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-	100	4,894	100	4,794
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-	6,611	162,035	75,522	86,513
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-	2,721	77,967	42,216	35,751
13	320.1	Water Treatment Plants	4.08%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	4.08%	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	4.08%	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	4.08%	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-	7,355	180,280	59,632	120,648
18	331	Transmission & Distribution Mains	4.08%	-	-	-	-	-	-	-	-	-	-
19	333	Services	4.08%	-	-	-	-	-	-	18,198	446,017	164,550	281,467
20	334	Meters	4.08%	-	-	-	-	-	-	129	3,171	1,710	1,461
21	335	Hydrants	4.08%	1,183	-	1,183	-	-	-	93	2,881	1,791	1,090
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-	952	23,325	9,337	13,988
23	339	Other Plant & Misc Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	4.08%	-	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
27	342	Stores Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	4.08%	897	-	897	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-	90	2,847	125	2,522
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-	-	-	-	-
34				-	-	-	-	-	-	43	1,056	481	574
35		TOTAL		44,531	-	44,531	-	15,000	-	37,813	1,006,566	372,464	634,102



Quail Creek Water Company

Test Year Ended December 31, 2013

Reconciliation of Plant Additions, Retirements and Accumulated Depreciation  
After Consideration of Deferred Purchases

Exhibit  
Rejoinder Schedule B-2  
Page 3.9  
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2001						Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
				Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Adjusted Plant Retirements	Adjusted Plant Retirements					
1	301	Organization Cost	4.08%	-	-	-	-	-	-	-	1,522	37,295	18,521	18,775
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	65,000	-	65,000
4	304	Structures & Improvements	4.08%	-	-	-	-	-	-	-	200	4,894	299	4,594
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-	-	6,611	162,035	82,133	79,902
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	4.08%	-	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	4.08%	-	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	4.08%	-	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	4.08%	-	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	4.08%	-	-	-	-	-	-	-	-	-	-	-
19	333	Services	4.08%	-	-	-	-	-	-	-	-	-	-	-
20	334	Meters	4.08%	-	-	-	-	-	-	-	-	-	-	-
21	335	Hydrants	4.08%	-	-	-	-	-	-	-	-	-	-	-
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	4.08%	-	-	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
27	342	Stores Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-	-	-	-	-	-
34				-	-	-	-	-	-	-	-	-	-	-
35		TOTAL		15,468	-	15,468	-	14,337	14,337	-	38,439	1,007,697	396,566	611,131

**Quail Creek Water Company**

Test Year Ended December 31, 2013

Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

After Consideration of Deferred Purchases

Exhibit  
Rejoinder Schedule B-2  
Page 3.10  
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2002					Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
				Plant Additions	Plant Adjustments	Capitalized Interest	Adjusted Plant Additions	Plant Retirement Adjustments	Adjusted Plant Retirements				
1	301	Organization Cost	4.08%	-	-	-	-	-	-	1,522	37,295	20,042	17,253
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	27,895	-	-	27,895	-	-	-	-	-	-
4	304	Structures & Improvements	4.08%	18,398	-	(18)	18,380	-	-	575	92,895	874	92,895
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-	-	23,273	-	22,399
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-	-	-	-	-
8	308	Infiltration Galleries	4.08%	27,578	-	(9)	27,569	-	-	7,173	189,604	89,307	100,297
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
12	320	Water Treatment Equipment	4.08%	169,714	-	(173)	169,541	-	-	6,419	242,095	37,369	204,727
13	320.1	Water Treatment Plants	4.08%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	4.08%	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	4.08%	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	4.08%	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-	7,355	180,280	74,343	105,937
18	331	Transmission & Distribution Mains	4.08%	190,448	-	-	190,448	-	-	22,083	636,465	204,830	431,635
19	333	Services	4.08%	57,676	-	-	57,676	-	-	1,306	60,847	3,145	57,701
20	334	Meters	4.08%	-	-	-	-	-	-	127	3,109	2,040	1,069
21	335	Hydrants	4.08%	27,395	-	-	27,395	-	-	1,511	50,720	11,799	38,920
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	4.08%	-	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
27	342	Stores Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	4.08%	707	-	-	707	-	-	14	707	14	693
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	4.08%	1,340	-	-	1,340	-	-	393	10,302	755	9,547
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-	43	1,056	567	488
34													
35		TOTAL		521,151	-	(200)	520,951	-	-	48,520	1,528,648	445,086	1,083,562

**Quail Creek Water Company**

Test Year Ended December 31, 2013

Reconciliation of Plant Additions, Retirements and Accumulated Depreciation  
After Consideration of Deferred Purchases

Exhibit  
Rejoinder Schedule B-2  
Page 3.11  
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2003						Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
				Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirement Adjustments	Adjusted Plant Retirements	Adjusted Plant Retirements					
1	301	Organization Cost	4.08%	-	-	-	-	-	-	-	1,522	37,295	21,564	15,731
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	-	-	-	-	-	-	-	950	23,273	1,824	21,450
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-	-	7,736	189,604	97,042	92,561
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-	-	9,877	242,095	47,246	194,849
13	320.1	Water Treatment Plants	4.08%	-	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	4.08%	-	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	4.08%	-	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	4.08%	-	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-	-	7,355	180,280	81,699	98,581
18	331	Transmission & Distribution Mains	4.08%	228,624	-	228,624	-	-	-	-	30,632	865,089	235,462	629,627
19	333	Services	4.08%	49,285	-	49,285	-	-	-	-	3,488	110,132	6,633	103,498
20	334	Meters	4.08%	4,163	-	4,163	-	-	-	-	212	7,272	2,252	5,020
21	335	Hydrants	4.08%	28,800	-	28,800	-	-	-	-	2,657	79,520	14,456	65,064
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	4.08%	-	-	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
27	342	Stores Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-	-	29	707	43	664
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	4.08%	2,730	-	2,730	-	-	-	-	476	13,032	1,231	11,801
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-	-	43	1,056	610	445
34														
35		TOTAL		313,602	-	313,602	-	-	-	-	64,976	1,842,250	510,062	1,332,187

**Quail Creek Water Company**

Test Year Ended December 31, 2013

Reconciliation of Plant Additions, Retirements and Accumulated Depreciation  
After Consideration of Deferred Purchases

Exhibit  
Rejoinder Schedule B-2  
Page 3.12  
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2004									
				Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Adjusted Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-	1,522	37,295	23,086	14,210
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	-	-
4	304	Structures & Improvements	4.08%	-	-	-	-	-	-	-	92,895	-	92,895
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-	950	23,273	2,773	20,500
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-	-	-	-	-
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-	7,736	189,604	104,778	84,825
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	4.08%	31,758	-	31,758	-	-	-	648	31,758	648	31,110
12	320	Water Treatment Equipment	4.08%	478,260	-	478,260	-	-	-	19,634	720,355	66,880	653,475
13	320.1	Water Treatment Plants	4.08%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	4.08%	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	4.08%	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	4.08%	676,294	-	676,294	-	-	-	21,152	856,574	102,850	753,724
17	330.2	Pressure Tanks	4.08%	32,236	-	32,236	-	-	-	658	32,236	658	31,578
18	331	Transmission & Distribution Mains	4.08%	152,378	-	152,378	-	-	-	38,404	1,017,467	273,866	743,601
19	333	Services	4.08%	66,728	-	66,728	-	-	-	5,855	176,860	12,488	164,372
20	334	Meters	4.08%	13,737	-	13,737	-	-	-	577	21,008	2,829	18,180
21	335	Hydrants	4.08%	33,497	-	33,497	-	-	-	3,928	113,017	18,384	94,633
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	4.08%	-	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
27	342	Stores Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	4.08%	-	-	-	-	-	-	29	707	72	635
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	4.08%	-	-	-	-	-	-	983	35,136	2,214	32,922
32	347	Miscellaneous Equipment	4.08%	22,104	-	22,104	-	-	-	-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-	-	-	-	-
34				-	-	-	-	-	-	43	1,056	653	402
35		TOTAL		1,506,992	-	1,506,992	-	-	-	102,116	3,349,242	612,178	2,737,063

### Reconciliation of Plant Additions, Retirements and Accumulated Depreciation After Consideration of Deferred Purchases

Page 3.13

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2005									
				Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	4.08%	-	-	-	-	-	-	1,522	37,295	24,607	12,688
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	-	-
4	304	Structures & Improvements	4.08%	5,180	-	5,180	-	-	-	-	92,895	-	92,895
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-	1,055	28,453	3,828	24,625
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-	-	-	-	-
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-	7,736	189,604	112,514	77,090
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	4.08%	-	-	-	-	-	-	1,296	31,758	1,944	29,815
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-	29,390	720,355	96,270	624,084
13	320.1	Water Treatment Plants	4.08%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	4.08%	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	4.08%	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	4.08%	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-	34,948	856,574	137,799	718,775
18	331	Transmission & Distribution Mains	4.08%	338,638	663,178	1,001,816	-	-	-	1,315	32,236	1,973	30,263
19	333	Services	4.08%	71,348	69,718	141,066	-	-	-	61,950	2,019,283	335,816	1,683,468
20	334	Meters	4.08%	31,341	-	31,341	-	-	-	10,094	317,926	295,345	22,582
21	335	Hydrants	4.08%	42,926	87,308	130,235	-	-	-	1,497	52,350	4,325	48,025
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-	7,268	243,252	25,652	217,600
23	339	Other Plant & Misc Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	4.08%	-	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
27	342	Stores Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-	29	707	101	606
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-	1,434	35,136	3,647	31,489
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-	-	-	-	-
34				-	-	-	-	-	-	43	1,056	696	359
35		TOTAL		489,434	820,205	1,308,639	-	-	-	159,576	4,658,881	771,754	3,887,127
36													
37													
38													

Quail Creek Water Company

Test Year Ended December 31, 2013

Reconciliation of Plant Additions, Retirements and Accumulated Depreciation  
After Consideration of Deferred Purchases

Exhibit  
Rejoinder Schedule B-2  
Page 3.14  
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2006					Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
				Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Adjusted Retirements					
1	301	Organization Cost	4.08%	-	-	-	-	-	-	1,522	37,295	26,129	11,167
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	92,895	-	92,895
4	304	Structures & Improvements	4.08%	-	-	-	-	-	-	1,161	28,453	4,989	23,464
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-	7,736	189,604	120,250	69,354
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	4.08%	1,236	-	1,236	-	-	-	1,321	32,994	3,265	29,730
11	311	Pumping Equipment	4.08%	6,264	-	6,264	-	-	-	29,518	726,618	125,789	600,830
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	4.08%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	4.08%	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	4.08%	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	4.08%	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-	34,948	856,574	172,747	683,827
18	331	Transmission & Distribution Mains	4.08%	130,193	-	130,193	-	-	-	1,315	32,236	3,288	28,948
19	333	Services	4.08%	52,505	-	52,505	-	-	-	85,043	2,149,476	420,858	1,728,618
20	334	Meters	4.08%	17,067	-	17,067	-	-	-	14,042	370,431	36,624	333,807
21	335	Hydrants	4.08%	21,806	-	21,806	-	-	-	2,484	69,417	6,809	62,608
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-	10,370	265,057	36,021	229,036
23	339	Other Plant & Misc Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	4.08%	-	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
27	342	Stores Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	4.08%	-	-	-	-	-	-	-	707	130	577
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-	1,434	35,136	5,081	30,055
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-	-	-	-	-
34				-	-	-	-	-	-	43	1,056	740	316
35		TOTAL		229,071	-	229,071	-	-	-	190,965	4,887,951	962,719	3,925,232

Quail Creek Water Company

Test Year Ended December 31, 2013

Reconciliation of Plant Additions, Retirements and Accumulated Depreciation  
After Consideration of Deferred Purchases

Exhibit  
Rejoinder Schedule B-2  
Page 3.15  
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2007					Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
				Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Adjusted Plant Retirements					
1	301	Organization Cost	4.08%	-	-	-	-	-	-	1,522	37,295	27,651	9,645
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	-	-
4	304	Structures & Improvements	4.08%	-	-	-	-	-	-	-	92,895	-	92,895
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-	1,161	28,453	6,150	22,303
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-	-	-	-	-
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-	7,736	189,604	127,986	61,618
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	4.08%	-	-	-	-	-	-	1,346	32,994	4,611	28,384
12	320	Water Treatment Equipment	4.08%	1,691	-	1,691	-	-	-	29,681	728,309	155,469	572,840
13	320.1	Water Treatment Plants	4.08%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	4.08%	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	4.08%	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	4.08%	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	4.08%	-	-	-	-	-	-	34,948	856,574	207,695	648,879
19	333	Services	4.08%	431,026	-	431,026	-	-	-	1,315	32,236	4,603	27,633
20	334	Meters	4.08%	192,670	-	192,670	-	-	-	96,492	2,580,502	517,350	2,063,152
21	335	Hydrants	4.08%	9,439	-	9,439	-	-	-	19,044	563,101	55,668	507,433
22	336	Backflow Prevention Devices	4.08%	70,900	-	70,900	-	-	-	3,025	78,856	9,834	69,022
23	339	Other Plant & Misc Equipment	4.08%	-	-	-	-	-	-	12,261	335,957	48,282	287,676
24	340	Office Furniture & Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	4.08%	1,416	-	1,416	-	-	-	-	-	-	-
26	341	Transportation Equipment	4.08%	-	-	-	-	-	-	29	1,416	29	1,387
27	342	Stores Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-	29	707	159	549
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	4.08%	4,980	-	4,980	-	-	-	1,535	40,116	6,616	33,500
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-	-	-	-	-
34				-	-	-	-	-	-	43	1,056	783	273
35		TOTAL		712,122	-	712,122	-	-	-	210,166	5,600,073	1,172,885	4,427,188

## Reconciliation of Plant Additions, Retirements and Accumulated Depreciation After Consideration of Deferred Purchases

Witness: Jones/Bourassa

NARUC Line	Account No.	Description	Allowed Deprec. Rate	Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-	-	1,522	37,295	29,172	8,123
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	-	-	-
4	304	Structures & Improvements	4.08%	4,325	-	4,325	-	-	-	-	-	92,895	-	92,895
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-	-	1,249	32,778	7,399	25,379
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-	-	-	-	-	-
8	308	Infiltration Galleries	4.08%	990	(990)	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-	-	7,736	189,604	135,721	53,882
10	310	Power Generation Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	4.08%	-	-	-	-	-	-	-	1,346	32,994	5,957	27,037
12	320	Water Treatment Equipment	4.08%	87,378	-	87,378	-	47,642	47,642	-	30,526	768,045	138,353	629,693
13	320.1	Water Treatment Plants	4.08%	-	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	4.08%	-	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	4.08%	-	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	4.08%	-	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	4.08%	363,405	-	363,405	-	-	-	-	34,948	856,574	242,643	613,931
19	333	Services	4.08%	144,958	-	144,958	-	-	-	-	1,315	32,236	5,919	26,318
20	334	Meters	4.08%	-	-	-	-	-	-	-	112,698	2,943,907	630,048	2,313,859
21	335	Hydrants	4.08%	65,437	-	65,437	-	-	-	-	25,932	708,060	81,600	626,460
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-	-	3,217	78,856	13,051	65,805
23	339	Other Plant & Misc Equipment	4.08%	-	-	-	-	-	-	-	15,042	401,394	63,324	338,071
24	340	Office Furniture & Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	4.08%	-	-	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
27	342	Stores Equipment	4.08%	-	-	-	-	-	-	-	58	1,416	87	1,329
28	343	Tools, Shop & Garage Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-	-	29	707	188	520
31	346	Communication Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	4.08%	4,700	-	4,700	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-	-	1,733	44,817	8,349	36,468
34		TOTAL		671,194	(990)	670,204	-	47,642	47,642	-	237,993	6,222,635	1,362,636	4,859,999



Exhibit  
Rejoinder Schedule B-2  
Page 3.17  
Witness: Jones/Bourassa

### Reconciliation of Plant Additions, Retirements and Accumulated Depreciation After Consideration of Deferred Purchases

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2009										
				Plant Additions	Plant Adjustments	Capitalized Interest	Adjusted Plant Additions	Plant Retirements	Adjusted Plant Retirements	Salvage A/D Only	Deprecation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-	-	1,522	37,295	30,694	6,602
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	-	-	-
4	304	Structures & Improvements	4.08%	-	-	-	-	-	-	-	-	92,895	-	92,895
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-	-	1,337	32,778	8,737	24,042
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	4.08%	-	251,984	(2,552)	249,432	-	-	-	12,824	439,035	148,546	290,489
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	4.08%	4,624	-	-	4,624	-	-	-	-	-	-	-
11	311	Pumping Equipment	4.08%	536,600	(253,063)	-	283,538	-	-	-	1,440	37,618	7,397	30,221
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-	-	37,120	1,051,583	175,473	876,110
13	320.1	Water Treatment Plants	4.08%	-	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	4.08%	-	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	4.08%	-	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	4.08%	-	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	4.08%	88,544	-	-	88,544	-	-	-	34,948	856,574	277,591	578,983
19	333	Services	4.08%	42,432	-	-	42,432	-	-	-	1,315	32,236	7,234	25,002
20	334	Meters	4.08%	-	-	-	-	-	-	-	121,918	3,032,451	751,966	2,280,485
21	335	Hydrants	4.08%	-	-	-	-	-	-	-	29,754	750,491	111,354	639,137
22	336	Backflow Prevention Devices	4.08%	22,336	-	-	22,336	-	-	-	3,217	78,856	16,269	62,587
23	339	Other Plant & Misc Equipment	4.08%	-	-	-	-	-	-	-	16,833	423,730	80,156	343,574
24	340	Office Furniture & Software	4.08%	-	-	-	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	4.08%	-	-	-	-	-	-	-	58	1,416	144	1,271
26	341	Transportation Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
27	342	Stores Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	4.08%	-	-	-	-	-	-	-	29	707	216	491
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	4.08%	1,175	-	-	1,175	-	-	-	1,852	45,992	10,201	35,790
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-	-	-	-	-	-
34				-	-	-	-	-	-	-	43	1,056	869	187
35		TOTAL		695,710	(1,079)	(2,552)	692,079	-	-	-	284,212	6,914,714	1,626,847	5,287,866
36														
37														
38														

Reconciliation of Plant Additions, Retirements and Accumulated Depreciation  
After Consideration of Deferred Purchases

Exhibit  
Rejoinder Schedule B-2  
Page 3.18  
Witness: Jones/Bourassa

NARUC Account	No.	Description	Allowed Deprec. Rate	Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Retirements	Adjusted Plant	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
1	301	Organization Cost	4.08%	-	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	-	-	-
4	304	Structures & Improvements	4.08%	-	-	-	-	-	-	-	-	-	-	-
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-	-	-	-	-	-
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	4.08%	-	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	4.08%	-	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	4.08%	-	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	4.08%	-	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	4.08%	-	-	-	-	-	-	-	-	-	-	-
19	333	Services	4.08%	-	-	-	-	-	-	-	-	-	-	-
20	334	Meters	4.08%	-	-	-	-	-	-	-	-	-	-	-
21	335	Hydrants	4.08%	-	-	-	-	-	-	-	-	-	-	-
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	4.08%	-	-	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
27	342	Stores Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-	-	-	-	-	-
34				-	-	-	-	-	-	-	-	-	-	-
35		TOTAL		22,884	-	22,884	76,170	-	76,170	-	217,243	6,861,428	1,827,921	5,033,507

Quail Creek Water Company

Test Year Ended December 31, 2013

Reconciliation of Plant Additions, Retirements and Accumulated Depreciation  
After Consideration of Deferred Purchases

Exhibit  
Rejoinder Schedule B-2  
Page 3.19  
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2011					Depreciation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
				Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Adjusted Retirements				
1	301	Organization Cost	4.08%	-	-	-	-	-	1,522	37,295	33,737	3,558
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	-
4	304	Structures & Improvements	4.08%	15,263	-	15,263	-	-	-	92,895	-	92,895
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	1,649	48,041	11,723	36,318
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-	-	-	-
8	308	Infiltration Galleries	4.08%	469,316	(76,664)	392,652	-	-	25,923	831,687	192,381	639,306
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	4.08%	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	4.08%	-	-	-	-	-	-	-	-	-
12	320	Water Treatment Equipment	4.08%	298,688	-	298,688	-	-	1,535	37,618	10,467	27,151
13	320.1	Water Treatment Plants	4.08%	-	-	-	(211,574)	298,631	40,358	989,193	(117,340)	1,106,532
14	320.2	Solution Chemical Feeders	4.08%	-	-	-	-	-	192	-	192	(192)
15	330	Distribution Reservoirs & Standpipes	4.08%	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	4.08%	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	4.08%	-	-	-	-	-	34,948	856,574	347,488	509,086
19	333	Services	4.08%	-	-	-	-	-	1,315	32,236	9,864	22,372
20	334	Meters	4.08%	1,664	-	1,664	-	-	123,724	3,032,451	999,414	2,033,037
21	335	Hydrants	4.08%	-	-	-	-	-	30,654	752,155	172,628	579,527
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	3,430	84,080	23,023	61,057
23	339	Other Plant & Misc Equipment	4.08%	-	-	-	-	-	17,288	423,730	114,733	308,997
24	340	Office Furniture & Equipment	4.08%	-	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	4.08%	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	4.08%	-	-	-	-	-	-	-	-	-
27	342	Stores Equipment	4.08%	-	-	-	-	-	58	1,416	260	1,156
28	343	Tools, Shop & Garage Equipment	4.08%	-	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	4.08%	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	29	707	274	433
31	346	Communication Equipment	4.08%	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	4.08%	8,461	-	8,461	4,980	4,980	2,108	53,410	9,286	44,124
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-	-	-	-
34		TOTAL		793,392	(76,664)	716,728	510,205	(206,584)	284,776	7,274,545	1,809,085	5,465,460

Quail Creek Water Company

Test Year Ended December 31, 2013

Reconciliation of Plant Additions, Retirements and Accumulated Depreciation  
After Consideration of Deferred Purchases

Exhibit  
Rejoinder Schedule B-2  
Page 3.20  
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2012					Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.	Net Plant
				Plant Additions	Plant Adjustments	Adjusted Plant Additions	Plant Retirements	Adjusted Retirements					
1	301	Organization Cost	4.08%	-	-	-	-	-	-	1,522	37,295	35,259	2,037
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	-	-
4	304	Structures & Improvements	4.08%	12,843	-	12,843	-	-	-	-	92,895	-	92,895
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-	2,222	60,884	13,945	46,939
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-	-	-	-	-
8	308	Infiltration Galleries	4.08%	-	-	-	-	-	-	33,933	831,587	226,314	605,373
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	4.08%	-	-	-	-	-	-	1,535	37,618	12,002	25,616
12	320	Water Treatment Equipment	4.08%	-	-	-	-	-	-	40,359	989,193	(76,980)	1,066,173
13	320.1	Water Treatment Plants	4.08%	-	-	-	-	-	-	(192)	-	-	-
14	320.2	Solution Chemical Feeders	4.08%	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	4.08%	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	4.08%	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-	34,948	856,574	382,436	474,138
18	331	Transmission & Distribution Mains	4.08%	-	-	-	-	-	-	1,315	32,236	11,179	21,057
19	333	Services	4.08%	9,089	-	9,089	-	-	-	123,724	3,032,451	1,123,138	1,909,313
20	334	Meters	4.08%	1,026	-	1,026	-	-	-	30,873	761,244	203,502	557,743
21	335	Hydrants	4.08%	-	-	-	-	-	-	3,451	85,106	26,474	58,631
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-	17,288	423,730	132,021	291,709
23	339	Other Plant & Misc Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
24	340	Office Furniture & Equipment	4.08%	655	-	655	-	-	-	71	2,071	331	1,740
25	340.1	Computers & Software	4.08%	-	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
27	342	Stores Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	4.08%	809	-	809	-	-	-	45	1,517	320	1,197
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	4.08%	3,784	-	3,784	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-	2,256	57,194	11,543	45,651
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-	-	-	-	-
34		TOTAL		28,205	-	28,205	-	-	-	293,395	7,302,750	2,102,480	5,200,271

**Quail Creek Water Company**

Test Year Ended December 31, 2013

Reconciliation of Plant Additions, Retirements and Accumulated Depreciation  
After Consideration of Deferred Purchases

Exhibit  
Rejoinder Schedule B-2  
Page 3.21  
Witness: Jones/Bourassa

Line No.	NARUC Account No.	Description	Allowed Deprec. Rate	2013									
				Plant Additions	Plant Adjustments	Capitalize Testing Exp	Adjusted Plant Additions	Plant Retirements	Adjusted Retirements	Plant Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)
1	301	Organization Cost	4.08%	-	-	-	-	-	-	-	-	(36,780)	1,522
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	-	-
4	304	Structures & Improvements	4.08%	14,540	-	-	14,540	-	-	-	-	-	-
5	305	Collecting & Impounding Reservoirs	4.08%	-	-	-	-	-	-	-	-	-	2,781
6	306	Lake, River, Canal Intakes	4.08%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	4.08%	-	-	-	-	-	-	-	-	-	-
8	308	Infiltration Galleries	4.08%	-	-	4,013	4,013	-	-	-	-	-	34,015
9	309	Raw Water Supply Mains	4.08%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
12	320	Water Treatment Equipment	4.08%	152,499	-	-	152,499	-	-	-	-	-	1,535
13	320.1	Water Treatment Plants	4.08%	-	-	-	-	-	-	-	-	-	43,470
14	320.2	Solution Chemical Feeders	4.08%	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	4.08%	-	-	-	-	-	-	-	-	-	-
16	330.1	Storage Tanks	4.08%	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	4.08%	-	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	4.08%	161,710	-	-	161,710	-	-	-	-	-	34,948
19	333	Services	4.08%	129,987	-	-	129,987	-	-	-	-	-	1,315
20	334	Meters	4.08%	5,209	-	-	5,209	-	-	-	-	-	127,023
21	335	Hydrants	4.08%	53,451	-	-	53,451	-	-	-	-	-	33,711
22	336	Backflow Prevention Devices	4.08%	-	-	-	-	-	-	-	-	-	3,579
23	339	Other Plant & Misc Equipment	4.08%	-	-	-	-	-	-	-	-	-	18,379
24	340	Office Furniture & Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
25	340.1	Computers & Software	4.08%	-	-	-	-	-	-	-	-	-	-
26	341	Transportation Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
27	342	Stores Equipment	4.08%	-	-	-	-	-	-	-	-	-	84
28	343	Tools, Shop & Garage Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
29	344	Laboratory Equipment	4.08%	883	-	-	883	-	-	-	-	-	-
30	345	Power Operated Equipment	4.08%	-	-	-	-	-	-	-	-	-	80
31	346	Communication Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	4.08%	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	4.08%	-	-	-	-	-	-	-	-	-	2,334
34		TOTAL		518,280	-	4,013	522,293	-	-	-	-	(36,780)	304,817
35													
36													
37													
38													

Accum. Deprec. 0  
Plant Balance 37,295  
Net Plant 37,295  
Accum. Deprec. 16,725  
Plant Balance 75,424  
Net Plant 58,698  
Accum. Deprec. 280,329  
Plant Balance 835,700  
Net Plant 575,372  
Accum. Deprec. 13,537  
Plant Balance 37,618  
Net Plant 24,081  
Accum. Deprec. (33,510)  
Plant Balance 1,141,692  
Net Plant 1,175,202  
Accum. Deprec. 417,384  
Plant Balance 856,574  
Net Plant 439,190  
Accum. Deprec. 12,495  
Plant Balance 32,236  
Net Plant 19,741  
Accum. Deprec. 1,250,160  
Plant Balance 3,194,161  
Net Plant 1,944,001  
Accum. Deprec. 237,212  
Plant Balance 891,232  
Net Plant 654,019  
Accum. Deprec. 30,053  
Plant Balance 90,315  
Net Plant 60,262  
Accum. Deprec. 150,399  
Plant Balance 477,182  
Net Plant 326,782  
Accum. Deprec. 416  
Plant Balance 2,071  
Net Plant 1,655  
Accum. Deprec. 399  
Plant Balance 2,399  
Net Plant 2,000  
Accum. Deprec. 13,876  
Plant Balance 57,194  
Net Plant 43,318  
Accum. Deprec. 1,041  
Plant Balance 1,056  
Net Plant 15

**Quail Creek Water Company**  
Test Year Ended December 31, 2013  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2

Exhibit  
Rejoinder Schedule B-2  
Page 4  
Witness: Bourassa

Accumulated Depreciation										
Line No.	Acct.	Description	Per Books Accum. Depr.	A Capitalized Interest	B Capitalized Water Testing Exp.	C Non-Depr Plant	Adjustments		E	F
			\$				Correction To Depreciation in 1998	Correction To Retirements in 2011	Adjustments to Reconcile A/D to Recon.	Adjusted Accum. Depr.
1	301	Organization Cost	36,273				507			0
2	302	Franchise Cost	-				-			-
3	303	Land and Land Rights	-				-			-
4	304	Structures and Improvements	16,734	(8)			-		0	16,725
5	305	Collecting and Impounding Res.	-				-			-
6	306	Lake River and Other Intakes	-				-			-
7	307	Wells and Springs	258,516	(473)	82		2,204		(0)	260,329
8	308	Infiltration Galleries and Tunnels	-				-			-
9	309	Supply Mains	-				-			-
10	310	Power Generation Equipment	13,537				-			-
11	311	Electric Pumping Equipment	(39,241)	(81)			754	5,058	0	13,537 (33,510)
12	320	Water Treatment Plant	-				-			-
13	320.1	Water Treatment Plant	-				-			-
14	320.2	Chemical Solution Feeders	-				-			-
15	330	Dist. Reservoirs & Standpipe	-				-			-
16	330.1	Storage tanks	377,367				37,566		(37,566)	-
17	330.2	Pressure Tanks	12,495				2,452		37,566	417,384
18	331	Trans. and Dist. Mains	1,244,095				-			12,495
19	333	Services	237,169				6,066			1,250,160
20	334	Meters	30,053				43			237,212
21	335	Hydrants	150,082				-			30,053
22	336	Backflow Prevention Devices	-				317			150,399
23	339	Other Plant and Misc. Equip.	-				-			-
24	340	Office Furniture and Fixtures	416				-		(0)	416
25	340.1	Computers and Software	-				-			-
26	341	Transportation Equipment	-				-			-
27	342	Stores Equipment	-				-			-
28	343	Tools and Work Equipment	399				-			-
29	344	Laboratory Equipment	-				-			-
30	345	Power Operated Equipment	-				-			-
31	346	Communications Equipment	13,876				-			-
32	347	Miscellaneous Equipment	-				-			-
33	348	Other Tangible Plant	1,027				-			13,876
34	39	Loss on Plant Disposition	-				14			-
35	40	TOTALS	\$ 2,352,796	\$ (562)	\$ 82	\$ (36,780)	\$ 49,923	\$ 5,058	\$ 0	\$ 2,370,517
36	41	Adjusted Accumulated Depreciation								-
37	42	Increase (decrease) in Accumulated Depreciation								\$ 2,352,796
38	43	Adjustment to Accumulated Depreciation								\$ 17,720
39	44									\$ 17,720
40	45									\$ 17,720
41	46									\$ 17,720
42	47									\$ 17,720

SUPPORTING SCHEDULES  
B-2, pages 4.1 to 4.6

**Quail Creek Water Company**  
Test Year Ended December 31, 2013  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2 - A

Exhibit  
Rejoinder Schedule B-2  
Page 4.1  
Witness: Bourassa

Line

No.

1 Adjustment to A/D for Capitalized Interest Removal

2

3

4

Acct.

5

No. Description

Adjustment

Year

Rate

No. of  
Years

A/D

Adjustment

6

304

Structures and Improvements

(18)

2002

4.08%

11.50

\$ (8)

7

8

307

Wells and Springs

(9)

2002

4.08%

11.50

(4)

9

307

Wells and Springs

(2,552)

2009

4.08%

4.50

(469)

10

11

311

Electric Pumping Equipment

(173)

2002

4.08%

11.50

(81)

12

13

14

15

TOTALS

\$ (2,752)

\$ (562)

16

17

18

SUPPORTING SCHEDULE

19

20

Quail Creek Water Company  
Test Year Ended December 31, 2013  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2 - B

Exhibit  
Rejoinder Schedule B-2  
Page 4.2  
Witness: Bourassa

Line

No.

1 Adjustment to A/D for Capitalized Water Testing Expense

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

Acct.					No. of	A/D
No.	Description	Adjustment	Year	Rate	Years	Adjustment
307	Wells and Springs	4,013	2013	4.08%	0.50	82
TOTALS		\$ 4,013				\$ 82

SUPPORTING SCHEDULE



Quail Creek Water Company  
Test Year Ended December 31, 2013  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2 - C

Exhibit  
Rejoinder Schedule B-2  
Page 4.3  
Witness: Bourassa

Line

No.

1 Remove A/D for Non-Depreciable Accounts

2

3

4 Acct.

5 No. Description

6 301 Organization Cost

7

8

9

10

11

12

13

14

15

16 TOTALS

17

18

19 SUPPORTING SCHEDULE

20

21

A/D  
Adjustment  
(36,780)

\$ (36,780)

**Quail Creek Water Company**  
Test Year Ended December 31, 2013  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2 - D

Exhibit  
Rejoinder Schedule B-2  
Page 4.4  
Witness: Bourassa

Line					
No.					
1	<u>Correction to Depreciation Expense 1998</u>				
2					
3					
4	Acct.		Per	Per	A/D
5	No.	Description	Rebuttal	Direct	Adjustment
6	301	Organization Cost	1,522	1,014	507
7	302	Franchise Cost	-	-	-
8	303	Land and Land Rights	-	-	-
9	304	Structures and Improvements	-	-	-
10	305	Collecting and Impounding Res.	-	-	-
11	306	Lake River and Other Intakes	-	-	-
12	307	Wells and Springs	6,611	4,407	2,204
13	308	Infiltration Galleries and Tunnels	-	-	-
14	309	Supply Mains	-	-	-
15	310	Power Generation Equipment	-	-	-
16	311	Electric Pumping Equipment	2,261	1,507	754
17	320	Water Treatment Equipment	-	-	-
18	320.1	Water Treatment Plant	-	-	-
19	320.2	Chemical Solution Feeders	-	-	-
20	330	Dist. Reservoirs & Standpipe	-	(37,566)	37,566
21	330.1	Storage tanks	7,355	4,904	2,452
22	330.2	Pressure Tanks	-	-	-
23	331	Trans. and Dist. Mains	18,198	12,132	6,066
24	333	Services	129	86	43
25	334	Meters	-	-	-
26	335	Hydrants	952	634	317
27	336	Backflow Prevention Devices	-	-	-
28	339	Other Plant and Misc. Equip.	-	-	-
29	340	Office Furniture and Fixtures	-	-	-
30	340.1	Computers and Software	-	-	-
31	341	Transportation Equipment	-	-	-
32	342	Stores Equipment	-	-	-
33	343	Tools and Work Equipment	-	-	-
34	344	Laboratory Equipment	-	-	-
35	345	Power Operated Equipment	-	-	-
36	346	Communications Equipment	-	-	-
37	347	Miscellaneous Equipment	-	-	-
38	348	Other Tangible Plant	43	29	14
39					
40	TOTALS		\$ 35,549	\$ (13,867)	\$ 49,416
41					
42	<u>SUPPORTING SCHEDULE</u>				
43	Testimony				
44	Work papers				

**Quail Creek Water Company**  
 Test Year Ended December 31, 2013  
 Original Cost Rate Base Proforma Adjustments  
 Adjustment Number 2 - E

Exhibit  
 Rejoinder Schedule B-2  
 Page 4.5  
 Witness: Bourassa

Line

No.

1 Correction to A/D for Retirement Correction in 2011

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

Acct.			Per	Per	A/D
No.	Description		Direct	Rebuttal	Adjustment
311	Electric Pumping Equipment	Retirement	303,221	298,631	4,590

			Year	Depr	Years	
				Rate		
311	Electric Pumping Equipment	Depreciation	2011	4.08%	2.50	468

\$ 5,058

SUPPORTING SCHEDULE

B-2, page 3.3

**Quail Creek Water Company**  
Test Year Ended December 31, 2013  
Original Cost Rate Base Proforma Adjustments  
Adjustment Number 2 - F

Exhibit  
Rejoinder Schedule B-2  
Page 4.6  
Witness: Bourassa

Line  
No.

Reconciliation of A/D to A/D Reconstruction

		A/D		A/D	A/D	A/D
	Acct.	Adjusted	B-2	Adjusted	Per	A/D
	No.	per Direct	Adjustments	Per Rebuttal	Reconstruction	Adjustment
6	301	36,273	(36,273)	0	0	(0)
7	302	-	-	-	-	-
8	303	-	-	-	-	-
9	304	16,734	(8)	16,725	16,725	0
10	305	-	-	-	-	-
11	306	-	-	-	-	-
12	307	258,516	1,813	260,329	260,329	(0)
13	308	-	-	-	-	-
14	309	-	-	-	-	-
15	310	13,537	-	13,537	13,537	-
16	311	(39,241)	5,731	(33,510)	(33,510)	0
17	320	-	-	-	-	-
18	320.1	-	-	-	-	-
19	320.2	-	-	-	-	-
20	330	-	37,566	37,566	-	(37,566)
21	330.1	377,367	2,452	379,818	417,384	37,566
22	330.2	12,495	-	12,495	12,495	-
23	331	1,244,095	6,066	1,250,160	1,250,160	-
24	333	237,169	43	237,212	237,212	-
25	334	30,053	-	30,053	30,053	-
26	335	150,082	317	150,399	150,399	-
27	336	-	-	-	-	-
28	339	-	-	-	-	-
29	340	416	-	416	416	(0)
30	340.1	-	-	-	-	-
31	341	-	-	-	-	-
32	342	-	-	-	-	-
33	343	399	-	399	399	-
34	344	-	-	-	-	-
35	345	-	-	-	-	-
36	346	13,876	-	13,876	13,876	-
37	347	-	-	-	-	-
38	348	1,027	14	1,041	1,041	-
39	Loss on Plant Disposition	-	-	-	-	-
40	TOTALS	\$ 2,352,796	\$ 17,720	\$ 2,370,517	\$ 2,370,517	\$ 0

SUPPORTING SCHEDULE

B-2, pages 4.1 through 4.2

B-2, pages 3.5 through 3.21

Quail Creek Water Company  
Test Year Ended December 31, 2013  
Original Cost Rate Base Proforma Adjustments  
Adjustment 4

Line No.	Deferred Income Tax as of December 31, 2013	Water & Sewer Adjusted Book Value	Water & Sewer Tax Value	Probability of Realization of Future Tax Benefit	Deductible TD (Taxable TD) Expected to be Realized	Effective Tax Rate	Future Tax Asset Current	Future Tax Asset Non Current	Future Tax Liability Current	Future Tax Liability Non Current
1										
2										
3										
4										
5										
6		Plant-in-Service	\$ 7,825,043 <sup>1</sup>							
7		Accum. Deprec. CIAC	(2,370,517) <sup>1</sup>							
8			(535,758) <sup>3</sup>							
9	Fed.	Fixed Assets	\$ 4,918,768	\$ 2,025,324 <sup>2</sup>	\$ (2,893,444)	34.30%	-	-	(992,466)	
10										
11	State	Fixed Assets	\$ 4,918,768	\$ 2,025,324 <sup>2</sup>	\$ (2,893,444)	4.90%	-	-	(141,779)	
12										
13	Fed & State	AIAC		180,221 <sup>4</sup>	\$ 180,221 <sup>4</sup>	39.20%	\$ 70,648	\$ 70,648	-	
14										
15										
16										
17		Net Asset (Liability)					\$ (1,063,597)	\$ -	\$ -	\$ (1,134,245)
18										
19										
20		DIT Asset (Liability) per Direct					\$ (1,071,725)			
21		Adjustment to DIT					\$ (8,128)			
22										
23										
24										
25										
26										
27										
28										
29										
30										
31										
32										
33										
34										
35										
36										
37										

Footnotes - See page 5.1

Exhibit  
Rejoinder Schedule B-2  
Page 5.1  
Witness: Bourassa

Line No.		FEDERAL	STATE
1	<sup>1</sup> Per adjusted book balances		
2	<sup>2</sup> Computation of Net Tax Value December 31, 2013		
3	Based on 2013 Tax Depreciation report (December 31, 2013)		
4	Unadjusted Cost at December 31, 2013 per federal and state tax depr. report	\$ 7,545,070	\$ 7,545,070
5	Reconciling Items not on tax report:		
6	Proposed Plant Adjustments	1,261	1,261
7			
8			
9			
10			
11	Net Unadjusted Cost tax Basis at December 31, 2013	\$ 7,546,331	\$ 7,546,331
12			
13	<u>Reductions</u>		
14	Accumulated Depreciation 2013 and prior per federal and state tax depr. report		
15		\$ (5,521,695)	\$ (5,521,695)
16			
17	Tax Depreciation Related to Proposed Plant Adjustments	688	688
18			
19			
20			
21			
22	Net Reductions through December 31, 2013		
23	Net tax value of plant-in-service at December 31, 2013	\$ (5,521,007)	\$ (5,521,007)
24		\$ 2,025,324	\$ 2,025,324
25	<sup>3</sup> CIAC (including impact of change to probability of realization)		
26	Gross CIAC per adjusted book balances	\$ 820,205	
27	CIAC reductions/additions		
28	A.A per adjusted book balances	\$ (284,447)	
29			
30			
31	Net CIAC before unrealized AIAC	(284,447)	\$ 535,758
32			
33	Unrealized AIAC Component		
34	AIAC per adjusted book balances	\$ -	
35	Adjusted Net AIAC (see footnote 5 below)	70.0%	
36	Unrealized AIAC Component % (1-Realized AIAC Component)		
37		\$ -	\$ -
38	Total realizable CIAC	\$ 535,758	
39			
40	<sup>4</sup> AIAC (including impact of change in probability of realization)		
41	AIAC per adjusted book balances	\$ -	
42	Less: Unrealized AIAC (from Note 3, above)	\$ -	
43			
44	Subtotal	\$ -	
45	Meter and Service Line Installation Charges per adjusted book balances		\$ 180,221
46	Total realizable AIAC	\$ 180,221	\$ 180,221
47			

Quail Creek Water Company  
Test Year Ended December 31, 2013  
Computation of Working Capital

Exhibit  
Rejoinder Schedule B-5  
Page 1  
Witness: Bourassa

Line

No.

1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	31,762
3	Pumping Power (1/24 of Pumping Power)		3,033
4	Purchased Water (1/24 of Purchased Water)		-
5	Prepaid Expenses		
6			
7			
8			
9	Total Working Capital Allowance	\$	34,796
10			
11			
12	Working Capital Requested	\$	-
13			
14			
15			
16			
17			
18	Total Operating Expense	\$	719,039
19	Less:		
20	Income Tax	\$	62,095
21	Property Tax		35,106
22	Depreciation		294,940
23	Purchased Water		-
24	Pumping Power		72,800
25	Allowable Expenses	\$	254,098
26	1/8 of allowable expenses	\$	31,762
27			

28

29 SUPPORTING SCHEDULES:

30 E-1

31

32

33

34

35

36

37

38

39

40

RECAP SCHEDULES:

B-1

**Quail Creek Water Company**  
Test Year Ended December 31, 2013  
Income Statement

Exhibit  
Rejoinder Schedule C-1  
Page 1  
Witness: Bourassa

Line No.		Adjusted Book Results	Adjustment	Rebuttal Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	<b>Revenues</b>					
2	Metered Water Revenues	\$ 837,366	\$ -	\$ 837,366	\$ 402,921	\$ 1,240,287
3	Unmetered Water Revenues	-	-	-	-	-
4	Other Water Revenues	7,353	-	7,353	-	7,353
5		<u>\$ 844,719</u>	<u>\$ -</u>	<u>\$ 844,719</u>	<u>\$ 402,921</u>	<u>\$ 1,247,640</u>
6	<b>Operating Expenses</b>					
7	Salaries and Wages	\$ 85,321	-	\$ 85,321		\$ 85,321
8	Employee Pensions and Benefits	21,254	-	21,254		21,254
9	Purchased Water	-	-	-		-
10	Purchased Power	72,800	-	72,800		72,800
11	Fuel For Power Production	-	-	-		-
12	Chemicals	6,454	-	6,454		6,454
13	Materials and Supplies	23,693	-	23,693		23,693
14	Office Supplies and Expense	20,818	-	20,818		20,818
15	Contractual Services - Engineering	-	-	-		-
16	Contractual Services - Accounting	380	-	380		380
17	Contractual Services - Legal	468	-	468		468
18	Contractual Services - Other	17,777	-	17,777		17,777
19	Contractual Services - Testing	12,864	(5,256)	7,608		7,608
20	Rents	566	-	566		566
21	Transportation Expenses	13,067	(2,136)	10,931		10,931
22	Insurance - Vehicle	524	-	524		524
23	Insurance - General Liability	9,483	-	9,483		9,483
24	Reg. Comm. Exp. - Other	425	-	425		425
25	Reg. Comm. Exp. - Rate Case	40,000	-	40,000		40,000
26	Bad Debt Expense	442	-	442		442
27	Miscellaneous Expense	12,741	(4,787)	7,954		7,954
28	Depreciation and Amortization Expense	294,340	600	294,940		294,940
29	Taxes Other Than Income	-	-	-		-
30	Property Taxes	35,106	-	35,106	5,195	40,301
31	Income Tax	57,233	4,862	62,095	155,910	218,005
32			-	-		-
33	<b>Total Operating Expenses</b>	<u>\$ 725,756</u>	<u>\$ (6,717)</u>	<u>\$ 719,039</u>	<u>\$ 161,105</u>	<u>\$ 880,145</u>
34	<b>Operating Income</b>	<u>\$ 118,963</u>	<u>\$ 6,717</u>	<u>\$ 125,680</u>	<u>\$ 241,815</u>	<u>\$ 367,495</u>
35	<b>Other Income (Expense)</b>					
36	Interest Income	-	-	-		-
37	Other income	-	-	-		-
38	Interest Expense	-	-	-		-
39	Other Expense	-	-	-		-
40			-	-		-
41	<b>Total Other Income (Expense)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
42	<b>Net Profit (Loss)</b>	<u>\$ 118,963</u>	<u>\$ 6,717</u>	<u>\$ 125,680</u>	<u>\$ 241,815</u>	<u>\$ 367,495</u>

SUPPORTING SCHEDULES:  
C-1, page 2

RECAP SCHEDULES:  
A-1



Quail Creek Water Company  
Test Year Ended December 31, 2013  
Income Statement

Exhibit  
Rejoinder Schedule C-1  
Page 2  
Witness: Bourassa

Line No.	Revenues	1 Adjusted Book Results	2 Property Taxes	3 Water Testing Expense	4 Transportation Expense	5 Misc Expense	6 Intentionally Left Blank	7 Intentionally Left Blank	8 Income Taxes	9 Rebuttal Adjusted Results	10 Proposed Rate Increase	11 Rebuttal Adjusted with Rate Increase
1	Metered Water Revenues	\$ 837,366								\$ 837,366	\$ 402,921	\$ 1,240,287
2	Unmetered Water Revenues											
3	Other Water Revenues											
4												
5												
6	Operating Expenses	\$ 7,353								\$ 7,353		\$ 7,353
7	Salaries and Wages	\$ 844,719								\$ 844,719	\$ 402,921	\$ 1,247,640
8	Employee Pensions and Benefits											
9	Purchased Water											
10	Fuel For Power Production											
11	Chemicals											
12	Materials and Supplies											
13	Office Supplies and Expense											
14	Contractual Services - Engineering											
15	Contractual Services - Accounting											
16	Contractual Services - Legal											
17	Contractual Services - Other											
18	Contractual Services - Testing											
19	Rents											
20	Transportation Expenses											
21	Insurance - Vehicle											
22	Insurance - General Liability											
23	Reg. Comm. Exp. - Other											
24	Reg. Comm. Exp. - Rate Case											
25	Bad Debt Expense											
26	Miscellaneous Expense											
27	Depreciation and Amortization Expense											
28	Taxes Other Than Income											
29	Property Taxes											
30	Income Tax											
31												
32												
33	Total Operating Expenses	\$ 725,756	\$ 600	\$ (5,256)	\$ (2,136)	\$ (4,787)	\$ -	\$ -	\$ 4,862	\$ 719,039	\$ 161,105	\$ 880,145
34	Operating Income	\$ 118,963	\$ (600)	\$ 5,256	\$ 2,136	\$ 4,787	\$ -	\$ -	\$ (4,862)	\$ 125,680	\$ 241,815	\$ 367,495
35	Other Income (Expense)											
36	Interest Income											
37	Other Income											
38	Interest Expense											
39	Other Expense											
40												
41	Total Other Income (Expense)											
42	Net Profit (Loss)	\$ 118,963	\$ (600)	\$ 5,256	\$ 2,136	\$ 4,787	\$ -	\$ -	\$ (4,862)	\$ 125,680	\$ 241,815	\$ 367,495
43												
44												
45												
46												

RECAP SCHEDULES:  
C-1, page 1

SUPPORTING SCHEDULES:  
C-2

**Quail Creek Water Company**  
Test Year Ended December 31, 2013  
Adjustments to Revenues and Expenses

Exhibit  
Rejoinder Schedule C-2  
Page 1  
Witness: Bourassa

Line No.	1	2	3	4	5	6	
	<u>Adjustments to Revenues and Expenses</u>						
			Water			Intentionally	
		Property	Testing	Transportation	Misc	Left	
	<u>Depreciation</u>	<u>Taxes</u>	<u>Expense</u>	<u>Expense</u>	<u>Expense</u>	<u>Blank</u>	<u>Subtotal</u>
1 Revenues				-		-	-
2 Expenses	600	-	(5,256)	(2,136)	(4,787)	-	(11,579)
3 Operating							
4 Income	(600)	-	5,256	2,136	4,787	-	11,579
5 Interest							
6 Expense							-
7 Other							
8 Income /							-
9 Expense							
10 Net Income	(600)	-	5,256	2,136	4,787	-	11,579
11							
12	<u>Adjustments to Revenues and Expenses</u>						
13							
14	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	
15	Intentionally	Income	Intentionally	Intentionally	Intentionally	Intentionally	
16	Left	Taxes	Left	Left	Left	Left	
17	<u>Blank</u>	<u>Blank</u>	<u>Blank</u>	<u>Blank</u>	<u>Blank</u>	<u>Blank</u>	<u>Subtotal</u>
18 Revenues							-
19 Expenses	-	4,862	-	-	-	-	(6,717)
20 Operating							
21 Income	-	(4,862)	-	-	-	-	6,717
22 Interest							
23 Expense	-						-
24 Other							
25 Income /	-						-
26 Expense							
27 Net Income	-	(4,862)	-	-	-	-	6,717
28							

**Quail Creek Water Company**  
Test Year Ended December 31, 2013  
Adjustments to Revenues and Expenses  
Adjustment Number 1

Exhibit  
Rejoinder Schedule C-2  
Page 2  
Witness: Bourassa

Depreciation Expense

Line

<u>No.</u>	<u>Acct.</u>	<u>Description</u>	<u>Original Cost</u>	<u>Non-Depr. or Fully Depr. Plant</u>	<u>Adjusted Original Cost</u>	<u>Proposed Rates</u>	<u>Depreciation Expense</u>
1							
2							
3							
4							
5	301	Organization Cost	\$ 37,295		\$ 37,295	0.00%	\$ -
6	302	Franchise Cost	-	-	-	0.00%	-
7	303	Land and Land Rights	92,895	(92,895)	-	0.00%	-
8	304	Structures and Improvements	75,424		75,424	3.33%	2,512
9	305	Collecting and Impounding Res.	-		-	2.50%	-
10	306	Lake River and Other Intakes	-		-	2.50%	-
11	307	Wells and Springs	835,700		835,700	3.33%	27,829
12	308	Infiltration Galleries and Tunnels	-		-	6.67%	-
13	309	Supply Mains	-		-	2.00%	-
14	310	Power Generation Equipment	37,618		37,618	5.00%	1,881
15	311	Electric Pumping Equipment	1,141,692		1,141,692	12.50%	142,711
16	320	Water Treatment Equipment	-		-	3.33%	-
17	320.1	Water Treatment Plant	-		-	3.33%	-
18	320.2	Chemical Solution Feeders	-		-	20.00%	-
19	330	Dist. Reservoirs & Standpipe	-		-	2.22%	-
20	330.1	Storage tanks	856,574		856,574	2.22%	19,016
21	330.2	Pressure Tanks	32,236		32,236	5.00%	1,612
22	331	Trans. and Dist. Mains	3,194,161		3,194,161	2.00%	63,883
23	333	Services	891,232		891,232	3.33%	29,678
24	334	Meters	90,315		90,315	8.33%	7,523
25	335	Hydrants	477,182		477,182	2.00%	9,544
26	336	Backflow Prevention Devices	-		-	6.67%	-
27	339	Other Plant and Misc. Equip.	-		-	6.67%	-
28	340	Office Furniture and Fixtures	2,071		2,071	6.67%	138
29	340.1	Computers and Software	-		-	20.00%	-
30	341	Transportation Equipment	-		-	20.00%	-
31	342	Stores Equipment	-		-	4.00%	-
32	343	Tools and Work Equipment	2,399		2,399	5.00%	120
33	344	Laboratory Equipment	-		-	10.00%	-
34	345	Power Operated Equipment	-		-	5.00%	-
35	346	Communications Equipment	57,194		57,194	10.00%	5,719
36	347	Miscellaneous Equipment	-		-	10.00%	-
37	348	Other Tangible Plant	1,056		1,056	10.00%	106
38		TOTALS	\$ 7,825,043	\$ (92,895)	\$ 7,732,147		\$ 312,272
39							
40		Less: Amortization of Contributions					
41	331	Trans. and Dist. Mains			Gross CIAC \$ 663,178	Amort. Rate 2.00%	\$ (13,264)
42	333	Services			\$ 69,718	3.33%	(2,322)
43	335	Hydrants			\$ 87,308	2.00%	(1,746)
44		Total CIAC			\$ 820,205		\$ (17,331)
45		Total Depreciation Expense					\$ 294,940
46							
47		Adjusted Test Year Depreciation Expense					294,340
48							
49		Increase (decrease) in Depreciation Expense					\$ 600
50							
51		Adjustment to Revenues and/or Expenses					\$ 600
52							
53		<u>SUPPORTING SCHEDULE</u>					
54		B-2, page 3					

**Quail Creek Water Company**  
Test Year Ended December 31, 2013  
Adjustment to Revenues and Expenses  
Adjustment Number 2

Exhibit  
Rejoinder Schedule C-2  
Page 3  
Witness: Bourassa

Property Taxes

Line No.	DESCRIPTION	Test Year as adjusted	Company Recommended
1	Company Adjusted Test Year Revenues	\$ 844,719	\$ 844,719
2	Weight Factor	3	2
3	Subtotal (Line 1 * Line 2)	2,534,157	1,689,438
4	Company Recommended Revenue		1,247,640
5	Subtotal (Line 4 + Line 5)	2,534,157	2,937,078
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	844,719	979,026
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	1,689,438	1,958,052
10	Plus: 10% of CWIP (intentionally excluded)	-	-
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	1,689,438	1,958,052
13	Assessment Ratio	18.0%	18.0%
14	Assessment Value (Line 12 * Line 13)	304,099	352,449
15	Composite Property Tax Rate - Obtained from ADOR	10.7445%	10.7445%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 32,674	\$ 37,869
17	Tax on Parcels	2,432	2,432
18	Total Property Taxes (Line 16 + Line 17)	\$ 35,106	
19	Test Year Property Taxes	\$ 35,106	
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	\$ -	
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		\$ 40,301
23	Company Test Year Adjusted Property Tax Expense (Line 18)		\$ 35,106
24	Increase in Property Tax Due to Increase in Revenue Requirement		\$ 5,195
25			
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		\$ 5,195
27	Increase in Revenue Requirement		\$ 402,921
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		1.28934%
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			

**Quail Creek Water Company**  
Test Year Ended December 31, 2013  
Adjustment to Revenues and Expenses  
Adjustment Number 3

Exhibit  
Rejoinder Schedule C-2  
Page 4  
Witness: Bourassa

Water Testing Expense

Line

No.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20

Staff Recommended Water Testing Expense

\$ 7,608

Test Year Water Testing Expense

12,864

Increase (decrease) in Water Testing Expense

\$ (5,256)

Adjustment to Revenue and/or Expense

\$ (5,256)

Reference

Staff Schedule JAC-9

Quail Creek Water Company  
Test Year Ended December 31, 2013  
Adjustment to Revenues and Expenses  
Adjustment Number 4

Exhibit  
Rejoinder Schedule C-2  
Page 5  
Witness: Bourassa

Transportation Expense

Line

No.

1

2 Staff Recommended Transportation Expense

\$ 10,931

3

4 Test Year Transportation Expense

13,067

5

6 Increase (decrease) in Transportation Expense

\$ (2,136)

7

8

9 Adjustment to Revenue and/or Expense

\$ (2,136)

10

11

12

13

14

15 Reference

16 Staff Schedule JAC-10

17

18

19

20

Quail Creek Water Company  
Test Year Ended December 31, 2013  
Adjustment to Revenues and Expenses  
Adjustment Number 5

Exhibit  
Rejoinder Schedule C-2  
Page 6  
Witness: Bourassa

Miscellaneous Expense

Line

No.

1

2 Staff Recommended Miscellaneous Expense

\$ 7,954

3

4 Test Year Miscellaneous Expense

12,741

5

6 Increase (decrease) in Miscellaneous Expense

\$ (4,787)

7

8

9 Adjustment to Revenue and/or Expense

\$ (4,787)

10

11

12

13

14

15

Reference

16 Staff Schedule JAC-11

17

18

19

20

**Quail Creek Water Company**  
Test Year Ended December 31, 2013  
Adjustment to Revenues and Expenses  
Adjustment Number 6

Exhibit  
Rejoinder Schedule C-2  
Page 7  
Witness: Bourassa

Intentionally Left Blank

Line

No.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26



**Quail Creek Water Company**  
Test Year Ended December 31, 2013  
Adjustment to Revenues and Expenses  
Adjustment Number 7

Exhibit  
Rejoinder Schedule C-2  
Page 8  
Witness: Bourassa

Intentionally Left Blank

Line

No.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23

Quail Creek Water Company  
Test Year Ended December 31, 2013  
Adjustment to Revenues and/or Expenses  
Adjustment Number 8

Exhibit  
Rejoinder Schedule C-2  
Page 9  
Witness: Bourassa

Line

No.

1 Income Taxes

2

3

4 Computed Income Tax

5 Test Year Income tax Expense

6 Adjustment to Income Tax Expense

7

8

9

10

11

12

13 SUPPORTING SCHEDULE

14 C-3, page 2

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

	Test Year at Present Rates	Test Year at Proposed Rates
\$	62,095	\$ 218,005
	57,233	62,095
\$	<u>4,862</u>	<u>\$ 155,910</u>

**Quail Creek Water Company**  
Test Year Ended December 31, 2013  
Computation of Gross Revenue Conversion Factor

Exhibit  
Rejoinder Schedule C-3  
Page 1  
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Combined Federal and State Effective Income Tax Rate	39.201%
2		
3	Property Taxes	0.784%
4		
5		
6	Total Tax Percentage	39.984%
7		
8	Operating Income % = 100% - Tax Percentage	60.016%
9		
10		
11		
12		
13	<u>1</u> = Gross Revenue Conversion Factor	
14	Operating Income %	1.6662
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
26	C-3, page 2	A-1
27		
28		
29		
30		
31		
32		
33		
34		
35		
36		
37		
38		
39		
40		

GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	(E)	(F)
<u>Calculation of Gross Revenue Conversion Factor:</u>							
1	Revenue	100.0000%					
2	Uncollectible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.9844%					
5	Subtotal (L3 - L4)	60.0156%					
6	Revenue Conversion Factor (L1 / L5)	1.666234					
<u>Calculation of Uncollectible Factor:</u>							
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (L17)	39.2005%					
9	One Minus Combined Income Tax Rate (L7 - L8)	60.7995%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
<u>Calculation of Effective Tax Rate:</u>							
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate	4.9000%					
14	Federal Taxable Income (L12 - L13)	95.1000%					
15	Applicable Federal Income Tax Rate (L55 Col F)	36.0678%					
16	Effective Federal Income Tax Rate (L14 x L15)	34.3005%					
17	Combined Federal and State Income Tax Rate (L13 + L16)		39.2005%				
<u>Calculation of Effective Property Tax Factor</u>							
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	39.2005%					
20	One Minus Combined Income Tax Rate (L18-L19)	60.7995%					
21	Property Tax Factor	1.2893%					
22	Effective Property Tax Factor (L20*L21)		0.7839%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.9844%			
24	Required Operating Income	\$ 367,495					
25	Adjusted Test Year Operating Income (Loss)	\$ 125,680					
26	Required Increase in Operating Income (L24 - L25)		\$ 241,815				
27	Income Taxes on Recommended Revenue (Col. (F), L52)	\$ 218,005					
28	Income Taxes on Test Year Revenue (Col. (C), L52)	\$ 62,095					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ 155,910				
30	Recommended Revenue Requirement	\$ 1,247,640					
31	Uncollectible Rate (Line 10)	0.0000%					
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$ -					
33	Adjusted Test Year Uncollectible Expense	\$ -					
34	Required Increase in Revenue to Provide for Uncollectible Exp.		\$ -				
35	Property Tax with Recommended Revenue	\$ 40,301					
36	Property Tax on Test Year Revenue	\$ 35,106					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		\$ 5,195				
38	Total Required Increase in Revenue (L26 + L29 + L37)		\$ 402,921				

	(A)	(B)	(C)	(D)	(E)	(F)
	Total Water	Intentionally Left Blank	Water	Total Water	Intentionally Left Blank	Water
39 Revenue	\$ 844,719		\$ 844,719	\$ 1,247,640		\$ 1,247,640
40 Operating Expenses Excluding Income Taxes	656,945		656,945	662,140		662,140
41 Synchronized Interest (L47)	-		-	-		-
42 Arizona Taxable Income (L39 - L40 - L41)	\$ 187,775		\$ 187,775	\$ 585,501		\$ 585,500
43 Arizona State Income Tax Rate	4.9000%		4.9000%	4.9000%		4.9000%
44 Arizona Income Tax (L42 x L43)	\$ 9,201		\$ 9,201	\$ 28,690		\$ 28,690
45 Federal Taxable Income (L42- L44)	\$ 178,574		\$ 178,574	\$ 556,812		\$ 556,811
46						
47 Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 7,500		\$ 7,500	\$ 7,500		\$ 7,500
48 Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	\$ 6,250		\$ 6,250	\$ 6,250		\$ 6,250
49 Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ 8,500		\$ 8,500	\$ 8,500		\$ 8,500
50 Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ 30,644		\$ 30,644	\$ 91,650		\$ 91,650
51 Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -		\$ -	\$ 75,416		\$ 75,416
52						
53 Total Federal Income Tax	\$ 52,894		\$ 52,894	\$ 189,316		\$ 189,316
54 Combined Federal and State Income Tax (L35 + L42)	\$ 62,095		\$ 62,095	\$ 218,005		\$ 218,005
55 COMBINED Applicable Federal Income Tax Rate [Col. (D), L53 - Col. (A), L53] / [Col. (D), L45 - Col. (A), L45]				36.0678%		
56 WASTEWATER Applicable Federal Income Tax Rate [Col. (E), L53 - Col. (B), L53] / [Col. (E), L45 - Col. (B), L45]					0.0000%	
57 WATER Applicable Federal Income Tax Rate [Col. (F), L53 - Col. (C), L53] / [Col. (F), L45 - Col. (C), L45]						36.0678%

Calculation of Interest Synchronization:

58 Rate Base	Water
59 Weighted Average Cost of Debt	\$ 3,674,950
60 Synchronized Interest (L59 X L60)	0.0000%
	\$ -

**Quail Creek Water Company**  
Revenue Summary  
Test Year Ended December 31, 2013

Exhibit  
Rejoinder Schedule H-1  
Page 1  
Witness: Bourassa

Line No.	Meter Size	Classification	Total Revenues at Present Rates	Total Revenues at Proposed Rates	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	5/8x3/4 Inch	Residential	\$ 654,321	\$ 937,763	\$ 283,442	43.32%	77.46%	75.16%
2	3/4 Inch	Residential	-	-	-	0.00%	0.00%	0.00%
3	1 Inch	Residential	64,595	97,874	33,279	51.52%	7.65%	7.84%
4	1 1/2 Inch	Residential	-	-	-	0.00%	0.00%	0.00%
5	2 Inch	Residential	3,424	5,825	2,401	70.14%	0.41%	0.47%
6								
7	5/8x3/4 Inch	Commercial	\$ 20,007	\$ 32,272	\$ 12,264	61.30%	2.37%	2.59%
8	3/4 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%
9	1 Inch	Commercial	11,118	20,627	9,509	85.53%	1.32%	1.65%
10	1 1/2 Inch	Commercial	9,942	18,667	8,725	87.75%	1.18%	1.50%
11	2 Inch	Commercial	28,157	49,080	20,922	74.30%	3.33%	3.93%
12	3 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%
13	6 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%
14								
15	5/8x3/4 Inch	Irrigation	\$ 10,246	\$ 19,096	\$ 8,850	86.38%	1.21%	1.53%
16	3/4 Inch	Irrigation	-	-	-	0.00%	0.00%	0.00%
17	1 Inch	Irrigation	2,514	4,451	1,937	77.04%	0.30%	0.36%
18	1 1/2 Inch	Irrigation	3,957	7,121	3,164	79.96%	0.47%	0.57%
19	2 Inch	Irrigation	9,033	16,553	7,520	83.25%	1.07%	1.33%
20	3 Inch	Irrigation	-	-	-	0.00%	0.00%	0.00%
21	4 Inch	Irrigation	6,753	10,780	4,027	59.62%	0.80%	0.86%
22								
23								
24								
25								
26								
27	<b>Subtotals of Revenues</b>		\$ 824,068	\$ 1,220,108	\$ 396,040	48.06%	97.56%	97.79%
28								
29	<b>Revenue Annualizations:</b>							
30	5/8x3/4 Inch	Residential	\$ 9,969	\$ 13,922	\$ 3,953	39.66%	1.18%	1.12%
31	3/4 Inch	Residential	-	-	-	0.00%	0.00%	0.00%
32	1 Inch	Residential	(44)	(67)	(23)	51.78%	-0.01%	-0.01%
33	1 1/2 Inch	Residential	-	-	-	0.00%	0.00%	0.00%
34	2 Inch	Residential	-	-	-	0.00%	0.00%	0.00%
35								
36	5/8x3/4 Inch	Commercial	\$ 1,589	\$ 2,476	\$ 887	55.87%	0.19%	0.20%
37	3/4 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%
38	1 Inch	Commercial	2,037	3,582	1,545	75.85%	0.24%	0.29%
39	1 1/2 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%
40	2 Inch	Commercial	(1,765)	(2,960)	(1,194)	67.65%	-0.21%	-0.24%
41	3 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%
42	6 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%
43								
44	5/8x3/4 Inch	Irrigation	\$ (36)	\$ (98)	\$ (62)	170.69%	0.00%	-0.01%
45	3/4 Inch	Irrigation	-	-	-	0.00%	0.00%	0.00%
46	1 Inch	Irrigation	152	245	93	61.18%	0.02%	0.02%
47	1 1/2 Inch	Irrigation	2,006	3,635	1,629	81.21%	0.24%	0.29%
48	2 Inch	Irrigation	-	-	-	0.00%	0.00%	0.00%
49	3 Inch	Irrigation	-	-	-	0.00%	0.00%	0.00%
50	4 Inch	Irrigation	-	-	-	0.00%	0.00%	0.00%
51								
52	<b>Subtotal Revenue Annualization</b>		\$ 13,906	\$ 20,735	\$ 6,829	49.11%	1.65%	2.45%
53								
54	<b>Total Revenues w/ Annualization</b>		\$ 837,974	\$ 1,240,843	\$ 402,869	48.08%	99.20%	99.46%
55	<b>Misc Revenues</b>		7,353	7,353	-	0.00%	0.87%	0.59%
56	<b>Reconciling Amount</b>		(608)	(556)	52	-8.55%	-0.07%	-0.04%
57	<b>Total Revenues</b>		\$ 844,719	\$ 1,247,640	\$ 402,921	47.70%	100.00%	100.00%
58								
59								

**Quail Creek Water Company**  
 Analysis of Revenue by Detailed Class  
 Test Year Ended December 31, 2013

Exhibit  
 Rejoinder Schedule H-2  
 Page 1  
 Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	Average Number of Customers at 12/31/2013	Average Consumption	Average Bill		Proposed Rates	Proposed Dollar Amount	Proposed Increase Percent Amount	Percent of Customers
				Present Rates	Proposed Rates				
1	5/8x3/4 Inch Residential	1,757	5,725	\$ 31.03	\$ 43.33	\$	12.30	39.64%	88.85%
2	3/4 Inch Residential	-	-	\$ 20.00	\$ 28.30	\$	8.30	41.50%	0.00%
3	1 Inch Residential	129	5,965	41.70	62.99		21.29	51.05%	6.53%
4	1 1/2 Inch Residential	-	-	50.00	70.75		20.75	41.50%	0.00%
5	2 Inch Residential	1	73,325	285.31	475.03		189.72	66.49%	0.05%
6									
7	5/8x3/4 Inch Commercial	53	5,808	\$ 31.26	48.11	\$	16.85	53.90%	2.70%
8	3/4 Inch Commercial	-	-	20.00	28.30		8.30	41.50%	0.00%
9	1 Inch Commercial	8	34,704	122.17	215.52		93.35	76.40%	0.38%
10	1 1/2 Inch Commercial	3	80,778	276.18	497.28		221.10	80.06%	0.15%
11	2 Inch Commercial	9	70,019	276.05	456.08		180.03	65.22%	0.43%
12	3 Inch Commercial	-	-	150.00	212.25		62.25	41.50%	0.00%
13	6 Inch Commercial	-	-	500.00	707.50		207.50	41.50%	0.00%
14									
15	5/8x3/4 Inch Irrigation	11	22,577	\$ 78.21	\$ 139.58	\$	61.37	78.46%	0.55%
16	3/4 Inch Irrigation	-	-	20.00	28.30		8.30	41.50%	0.00%
17	1 Inch Irrigation	3	18,277	76.18	121.40		45.22	59.36%	0.14%
18	1 1/2 Inch Irrigation	1	70,475	247.33	438.25		190.92	77.19%	0.07%
19	2 Inch Irrigation	2	105,846	376.37	661.36		284.99	75.72%	0.10%
20	3 Inch Irrigation	-	-	150.00	212.25		62.25	41.50%	0.00%
21	4 Inch Irrigation	1	111,709	562.78	870.92		308.13	54.75%	0.05%
22									
23									
24									
25									
26									
27									
28									
29	Totals	1,978							
30									
31	Actual Year End Number								
32	of Customers:	2,011							
33									
34									
35									
36									

100.00%

**Quail Creek Water Company**  
 Analysis of Revenue by Detailed Class  
 Test Year Ended December 31, 2013

Exhibit  
 Rejoinder Schedule H-2  
 Page 2  
 Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	Average Number of Customers at 12/31/2013	Median Consumption	Median Bill		Proposed Increase		Percent of Customers
				Present Rates	Proposed Rates	Dollar Amount	Percent Amount	
1	5/8x3/4 Inch Residential	1,757	4,500	\$ 27.60	\$ 37.66	\$ 10.06	36.44%	88.85%
2	3/4 Inch Residential	-	-	\$ 20.00	\$ 28.30	\$ 8.30	41.50%	0.00%
3	1 Inch Residential	129	4,500	\$ 37.60	\$ 56.21	\$ 18.61	49.49%	6.53%
4	1 1/2 Inch Residential	-	-	\$ 50.00	\$ 70.75	\$ 20.75	41.50%	0.00%
5	2 Inch Residential	1	70,000	\$ 276.00	\$ 455.97	\$ 179.97	65.21%	0.05%
6								
7	5/8x3/4 Inch Commercial	53	2,500	\$ 22.00	\$ 32.80	\$ 10.80	49.09%	2.70%
8	3/4 Inch Commercial	-	-	\$ 20.00	\$ 28.30	\$ 8.30	41.50%	0.00%
9	1 Inch Commercial	8	6,500	\$ 43.20	\$ 65.47	\$ 22.27	51.55%	0.38%
10	1 1/2 Inch Commercial	3	-	\$ 50.00	\$ 70.75	\$ 20.75	41.50%	0.15%
11	2 Inch Commercial	9	42,500	\$ 199.00	\$ 309.96	\$ 110.96	55.76%	0.43%
12	3 Inch Commercial	-	-	\$ 150.00	\$ 212.25	\$ 62.25	41.50%	0.00%
13	6 Inch Commercial	-	-	\$ 500.00	\$ 707.50	\$ 207.50	41.50%	0.00%
14								
15	5/8x3/4 Inch Irrigation	11	500	\$ 16.40	\$ 23.54	\$ 7.14	43.54%	0.55%
16	3/4 Inch Irrigation	-	-	\$ 20.00	\$ 28.30	\$ 8.30	41.50%	0.00%
17	1 Inch Irrigation	3	-	\$ 25.00	\$ 35.38	\$ 10.38	41.50%	0.14%
18	1 1/2 Inch Irrigation	1	55,000	\$ 204.00	\$ 349.58	\$ 145.58	71.36%	0.07%
19	2 Inch Irrigation	2	26,000	\$ 152.80	\$ 233.57	\$ 80.77	52.86%	0.10%
20	3 Inch Irrigation	-	-	\$ 150.00	\$ 212.25	\$ 62.25	41.50%	0.00%
21	4 Inch Irrigation	1	80,000	\$ 474.00	\$ 724.12	\$ 250.12	52.77%	0.05%
22								
23								
24								
25								
26								
27								
28								
29	Totals	1,978						100.00%
30								
31	Actual Year End Number of Customers:	2,011						
32								
33								
34								
35								
36								

Quail Creek Water Company  
Test Year Ended December 31, 2013  
Present and Proposed Rates

Exhibit  
Rejoinder Schedule H-3  
Page 1

Line No.	Monthly Usage Charge for: Meter Size (All Classes):	Present Rates	Proposed Rates	Change	Percent Change
1	5/8x3/4 Inch	\$	21.23	\$	41.50%
2	3/4 Inch	15.00	28.30	6.23	41.50%
3	1 Inch	20.00	35.38	8.30	41.50%
4	1 1/2 Inch	25.00	70.75	10.38	41.50%
5	2 Inch	50.00	113.20	20.75	41.50%
6	3 Inch	80.00	212.25	33.20	41.50%
7	4 Inch	150.00	353.75	62.25	41.50%
8	6 Inch	250.00	707.50	103.75	41.50%
9	Standpipe	500.00		207.50	41.50%
10					
11					
12	Gallons In Minimum (all classes)				NM
13					
14					
15					
16					
17					
18					
19					
20					

Commodity Rates (per 1,000 gallons)

Block	Present Rate	Proposed Rate
Over Minimum	\$ 2.80	
1 gallons to 4,000 gallons		3.53
4,001 gallons to 10,000 gallons		4.63
over 10,000 gallons		5.73
1 gallons to 10,000 gallons		4.63
over 10,000 gallons		5.73
Over Minimum	\$ 2.80	
1 gallons to 4,000 gallons		3.53
4,001 gallons to 10,000 gallons		4.63
over 10,000 gallons		5.73
1 gallons to 10,000 gallons		4.63
over 10,000 gallons		5.73

NM = not meaningful  
NT = No Tariff



Quail Creek Water Company  
Test Year Ended December 31, 2013  
Present and Proposed Rates

Exhibit  
Rejoinder Schedule H-3  
Page 2

Line No.	Commodity Rates (per 1,000 gallons)	Block	Present Rate	Proposed Rate
1	1 Inch Meter (all classes)	Over Minimum	\$ 2.80	
2				
3	1 Inch Meter (all classes)	1 gallons to 17,000 gallons		\$ 4.63
4		over 17,000 gallons		\$ 5.73
5				
6	1.5 Inch Meter (all classes)	Over Minimum	\$ 2.80	
7				
8	1.5 Inch Meter - (all classes)	1 gallons to 33,000 gallons		\$ 4.63
9		over 33,000 gallons		\$ 5.73
10				
11	2 Inch Meter (all classes)	Over Minimum	\$ 2.80	
12				
13	2 Inch Meter - (all classes)	1 gallons to 53,000 gallons		\$ 4.63
14		over 53,000 gallons		\$ 5.73
15				
16	3 Inch Meter (all classes)	Over Minimum	\$ 2.80	
17				
18	3 Inch Meter - (all classes)	1 gallons to 100,000 gallons		\$ 4.63
19		over 100,000 gallons		\$ 5.73
20				
21	4 Inch Meter (all classes)	Over Minimum	\$ 2.80	
22				
23	4 Inch Meter - (all classes)	1 gallons to 167,000 gallons		\$ 4.63
24		over 167,000 gallons		\$ 5.73
25				
26	6 Inch Meter (all classes)	Over Minimum	\$ 2.80	
27				
28	6 Inch Meter - (all classes)	1 gallons to 334,000 gallons		\$ 4.63
29		over 334,000 gallons		\$ 5.73
30				
31				
32	Standpipe*	All gallons	\$ 2.80	\$ 5.73
33				
34				

\* Includes hydrant or construction water.  
NT = No Tariff

**Quail Creek Water Company**  
Present and Proposed Rates  
Test Year Ended December 31, 2013

Exhibit  
Rejoinder Schedule H-3  
Page 3  
Witness: Bourassa

Line  
No.

1	<u>Meter and Service Line Charges</u>						
2							
3		Present	Meter		Proposed	Meter	
4		Service	Install-	Total	Service	Install-	Total
5		Line	ation	Present	Line	ation	Proposed
6		Charge	Charge	Charge	Charge <sup>1</sup>	Charge <sup>1</sup>	Charge <sup>1</sup>
7	5/8 x 3/4 Inch			\$ 350.00	\$ 385.00	\$ 135.00	\$ 520.00
8	3/4 Inch			\$ 400.00	415.00	205.00	620.00
9	1 Inch			\$ 470.00	465.00	265.00	730.00
10	1 1/2 Inch			\$ 695.00	520.00	475.00	995.00
11	2 Inch Turbo			\$ 1,225.00	800.00	995.00	1,795.00
12	2 Inch, Compound			\$ 1,820.00	800.00	1,840.00	2,640.00
13	3 Inch Turbo			\$ 1,735.00	1,015.00	1,620.00	2,635.00
14	3 Inch, compound			\$ 2,410.00	1,135.00	2,495.00	3,630.00
15	4 Inch Turbo			\$ 2,700.00	1,430.00	2,570.00	4,000.00
16	4 Inch, compound			\$ 3,455.00	1,610.00	3,545.00	5,155.00
17	6 Inch Turbo			\$ 5,115.00	2,150.00	4,925.00	7,075.00
18	6 Inch, compound			\$ 6,650.00	2,270.00	6,820.00	9,090.00

<sup>1</sup> Based on ACC Staff Engineering Memo dated February 21, 2008

Other Charges:

25	Establishment	\$ 25.00	\$ 25.00
26	Establishment (after hours)	\$ 45.00	Remove
27	Reestablishment within 12 months	**	**
28	Reconnection/Delinquent	\$ 25.00	\$ 25.00
29	Meter Test (if correct)	\$ 25.00	\$ 25.00
30	Meter Re-read (if correct)	\$ 15.00	\$ 15.00
31	Deposit	*	*
32	Deposit Interest	*	*
33	NSF Check	\$ 15.00	\$ 15.00
34	Deferred Payment, per month	1.5% per month	1.5% per month
35	Late Payment Fee (per month)	***	***
36	After hours service charge	NT	\$ 50.00
37	<u>Monthly Service Charge of Fire Sprinklers</u>		
39	4" or Smaller	****	****
40	6"	****	****
41	8"	****	****
42	10"	****	****
43	Larger than 10"	****	****

\* Per Commission Rule A.A.C R-14-2-403(b)

\*\* Number of months off the system times the monthly minimum per Commission Rule A.A.C. R14-2-403(D).

\*\*\* 1.5% per month or a minimum of \$3.50.

\*\*\*\* 1% of monthly minimum for a comparable sized meter connection, but no less than \$5.00 per month (requires separate service line).

NT = No Tariff

# **EXHIBIT TJB-RJI**

Quail Creek Water Company  
Metered Revenue Breakdown Summary  
Present Rates

Exhibit  
Page 1

		Present Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
5/8x3/4 Inch	Residential	\$ 321,120	\$ 343,170	\$ -	\$ -	\$ 664,290
3/4 Inch	Residential	-	-	-	-	-
1 Inch	Residential	38,700	25,851	-	-	64,551
1 1/2 Inch	Residential	-	-	-	-	-
2 Inch	Residential	960	2,464	-	-	3,424
Subtotal		\$ 360,780	\$ 371,484	\$ -	\$ -	\$ 732,264
		43.05%	44.33%	0.00%	0.00%	87.39%
5/8x3/4 Inch	Commercial	\$ 10,260	\$ 11,336	\$ -	\$ -	\$ 21,596
3/4 Inch	Commercial	-	-	-	-	-
1 Inch	Commercial	2,700	10,455	-	-	13,155
1 1/2 Inch	Commercial	1,800	8,142	-	-	9,942
2 Inch	Commercial	7,680	18,712	-	-	26,392
3 Inch	Commercial	-	-	-	-	-
6 Inch	Commercial	-	-	-	-	-
Subtotal		\$ 22,440	\$ 48,644	\$ -	\$ -	\$ 71,084
		0.00%	0.00%	0.00%	0.00%	0.00%
5/8x3/4 Inch	Irrigation	\$ 1,980	\$ 8,230	\$ -	\$ -	\$ 10,210
3/4 Inch	Irrigation	-	-	-	-	-
1 Inch	Irrigation	900	1,766	-	-	2,666
1 1/2 Inch	Irrigation	1,200	4,763	-	-	5,963
2 Inch	Irrigation	1,920	7,113	-	-	9,033
3 Inch	Irrigation	-	-	-	-	-
4 Inch	Irrigation	3,000	3,753	-	-	6,753
Golf Course	Irrigation	-	-	-	-	-
Subtotal		9,000	25,625	-	-	34,625
		1.07%	3.06%	0.00%	0.00%	4.13%
5/8x3/4 Inch	Construction	-	-	-	-	-
		0.00%	0.00%	0.00%	0.00%	0.00%

TOTALS	\$ 392,220	\$ 445,754	\$ -	\$ -	\$ 837,974
Percent of Total	46.81%	53.19%	0.00%	0.00%	100.00%
Cummulative %	46.81%	100.00%	100.00%	100.00%	

Quail Creek Water Company  
Metered Revenue Breakdown Summary  
Company Proposed Rates

Exhibit  
Page 2

		Present Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
5/8x3/4 Inch Residential		\$ 454,385	\$ 258,923	\$ 183,248	\$ 55,128	\$ 951,685
3/4 Inch Residential		-	-	-	-	-
1 Inch Residential		54,761	41,463	1,584	-	97,808
1 1/2 Inch Residential		-	-	-	-	-
2 Inch Residential		1,358	2,419	2,048	-	5,825
Subtotal		\$ 510,504 41.14%	\$ 302,805 24.40%	\$ 186,880 15.06%	\$ 55,128 4.44%	\$ 1,055,318 85.05%
5/8x3/4 Inch Commercial		\$ 14,518	\$ 12,484	\$ 7,745	\$ -	\$ 34,748
3/4 Inch Commercial		-	-	-	-	-
1 Inch Commercial		3,821	4,229	16,159	-	24,209
1 1/2 Inch Commercial		2,547	2,280	13,840	-	18,667
2 Inch Commercial		10,867	12,785	22,468	-	46,120
3 Inch Commercial		-	-	-	-	-
6 Inch Commercial		-	-	-	-	-
Subtotal		\$ 31,753 2.56%	\$ 31,779 2.56%	\$ 60,212 4.85%	\$ - 0.00%	\$ 123,743 9.97%
5/8x3/4 Inch Irrigation		\$ 2,802	\$ 2,712	\$ 13,484	\$ -	\$ 18,998
3/4 Inch Irrigation		-	-	-	-	-
1 Inch Irrigation		1,274	806	2,616	-	4,696
1 1/2 Inch Irrigation		1,698	2,898	6,160	-	10,756
2 Inch Irrigation		2,717	3,025	10,811	-	16,553
3 Inch Irrigation		-	-	-	-	-
4 Inch Irrigation		4,245	4,822	1,713	-	10,780
Golf Course Irrigation		-	-	-	-	-
Subtotal		\$ 12,735 1.03%	\$ 14,263 1.15%	\$ 34,785 2.80%	\$ - 0.00%	\$ 61,782 4.98%
5/8x3/4 Inch Construction		- 0.00%	- 0.00%	- 0.00%	- 0.00%	- 0.00%
TOTALS		\$ 554,991	\$ 348,846	\$ 281,877	\$ 55,128	\$ 1,240,843
Percent of Total		44.73%	28.11%	22.72%	4.44%	100.00%
Cummulative %		44.73%	72.84%	95.56%	100.00%	

Quail Creek Water Company  
Metered Revenue Breakdown Summary  
Staff Proposed Rates

Exhibit  
Page 3

		Present Monthly Mins	Commodity First Tier	Commodity Second Tier	Commodity Third Tier	Total
5/8x3/4 Inch Residential		\$ 385,344	\$ 220,072	\$ 168,222	\$ 51,572	\$ 825,210
3/4 Inch Residential		-	-	-	-	-
1 Inch Residential		69,660	38,063	1,482	-	109,205
1 1/2 Inch Residential		-	-	-	-	-
2 Inch Residential		1,728	2,221	1,916	-	5,864
Subtotal		\$ 456,732 40.76%	\$ 260,355 23.23%	\$ 171,620 15.31%	\$ 51,572 4.60%	\$ 940,279 83.90%
5/8x3/4 Inch Commercial		\$ 12,312	\$ 11,461	\$ 7,246	\$ -	\$ 31,018
3/4 Inch Commercial		-	-	-	-	-
1 Inch Commercial		4,860	3,883	15,116	-	23,859
1 1/2 Inch Commercial		3,240	2,093	12,947	-	18,280
2 Inch Commercial		13,824	11,736	21,018	-	46,579
3 Inch Commercial		-	-	-	-	-
6 Inch Commercial		-	-	-	-	-
Subtotal		\$ 34,236 3.05%	\$ 29,173 2.60%	\$ 56,327 5.03%	\$ - 0.00%	\$ 119,736 10.68%
5/8x3/4 Inch Irrigation		\$ 2,376	\$ 2,489	\$ 12,614	\$ -	\$ 17,480
3/4 Inch Irrigation		-	-	-	-	-
1 Inch Irrigation		1,620	740	2,448	-	4,807
1 1/2 Inch Irrigation		2,160	2,661	5,763	-	10,583
2 Inch Irrigation		3,456	2,777	10,113	-	16,347
3 Inch Irrigation		-	-	-	-	-
4 Inch Irrigation		5,400	4,426	1,603	-	11,429
Golf Course Irrigation		-	-	-	-	-
Subtotal		\$ 15,012 1.34%	\$ 13,093 1.17%	\$ 32,541 2.90%	\$ - 0.00%	\$ 60,646 5.41%
5/8x3/4 Inch Construction		- 0.00%	- 0.00%	- 0.00%	- 0.00%	- 0.00%
TOTALS		\$ 505,980	\$ 302,621	\$ 260,488	\$ 51,572	\$ 1,120,662
Percent of Total		45.15%	27.00%	23.24%	4.60%	100.00%
Cummulative %		45.15%	72.15%	95.40%	100.00%	

1 SHAPIRO LAW FIRM, P.C.  
Jay L. Shapiro (No. 014650)  
2 1819 E. Morten Avenue, Suite 280  
Phoenix, Arizona 85020  
3 Telephone (602) 559-9575

4 Attorneys for Quail Creek Water Company, Inc.

5  
6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

7  
8 IN THE MATTER OF THE APPLICATION  
OF QUAIL CREEK WATER COMPANY,  
9 INC., AN ARIZONA CORPORATION,  
FOR A DETERMINATION OF THE FAIR  
10 VALUE OF ITS UTILITY PLANTS AND  
PROPERTY AND FOR INCREASES IN  
11 ITS WATER RATES AND CHARGES FOR  
UTILITY SERVICE BASED THEREON.

DOCKET NO: W-02514A-14-0343

12  
13  
14  
15 **REJOINDER TESTIMONY**  
16 **OF**  
17 **THOMAS J. BOURASSA**  
18 **COST OF CAPITAL**

19  
20 **JULY 27, 2015**  
21  
22  
23  
24  
25  
26

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

## TABLE OF CONTENTS

I.	INTRODUCTION, PURPOSE AND SUMMARY OF TESTIMONY.....	1
II.	SUMMARY OF REJOINDER TESTIMONY AND THE PROPOSED COST OF CAPITAL FOR THE COMPANY .....	1
A.	SUMMARY OF QCW'S REJOINDER RECOMMENDATION .....	1
B.	SUMMARY OF THE STAFF RECOMMENDATIONS.....	2
C.	RESPONSES TO STAFF'S SURREBUTTAL CRITICISMS OF THE COMPANY'S COST OF CAPITAL ANALYSIS .....	3



1 **I. INTRODUCTION, PURPOSE AND SUMMARY OF TESTIMONY.**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive,  
4 Phoenix, Arizona 85029.

5 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

6 A. I am testifying on behalf of the Applicant Quail Creek Water Company, Inc.  
7 ("QCW" or "Company").

8 **Q. HAVE YOU ALSO PREPARED REJOINDER TESTIMONY ON RATE**  
9 **BASE ISSUES IN THIS DOCKET?**

10 A. Yes, my rejoinder testimony on rate base, income statement, revenue requirement  
11 and rate design is being filed in a separate volume concurrently with this testimony.  
12 In this volume, I present my cost of capital rejoinder testimony.

13 **Q. WHAT IS THE PURPOSE OF THIS PORTION OF YOUR TESTIMONY?**

14 A. I will respond to the surrebuttal testimony of Staff cost of capital witness, John  
15 Cassidy.

16 **II. SUMMARY OF REJOINDER TESTIMONY AND THE PROPOSED COST**  
17 **OF CAPITAL FOR THE COMPANY.**

18 **A. SUMMARY OF QCW'S REJOINDER RECOMMENDATION.**

19 **Q. HAVE YOU UPDATED YOUR COST OF CAPITAL ANALYSIS?**

20 A. No. I updated my cost of capital analysis in my rebuttal testimony filed June 3, 2015.  
21 I updated my cost of capital in rebuttal because of the significant period of time  
22 between the Company's direct filing and its rebuttal filing. I did not feel the need to  
23 provide an additional update here because my rebuttal update is less than  
24 two months old. As such, the rejoinder schedules attached mirror my rebuttal  
25 schedules.  
26

1 **Q. WHAT IS YOUR RECOMMENDED COST OF CAPITAL?**

2 A. I continue to recommend a return on equity of at least 10.0 percent, which is below  
3 the mid-point of the range of my DCF, Risk Premium, and CAPM analyses of  
4 10.1 percent for the publicly traded water utilities ("water proxy group").  
5 Ten percent is also well below the mid-point of the range of 10.5 percent for QCW,  
6 which takes into account a downward financial risk adjustment of 60 basis points,  
7 and which recognizes the Company's lower financial risk compared to the water  
8 proxy group, and an upward risk adjustment for QCW of 100 basis points to  
9 recognize the higher risk of an investment in QCW compared to the water proxy  
10 group.<sup>1</sup> I also recommend a capital structure consisting of 100 percent equity.  
11 Based on these recommendations, the weighted average cost of capital ("WACC")  
12 is 10.0 percent. Therefore, I recommend a return of at least 10.0 percent be applied  
13 to QCW's fair value rate base ("FVRB").

14 **B. SUMMARY OF THE STAFF RECOMMENDATIONS.**

15 **Q. PLEASE SUMMARIZE THE RECOMMENDATIONS OF STAFF FOR THE**  
16 **RATE OF RETURN ON FAIR VALUE RATE BASE.**

17 A. Staff has updated its cost of capital analysis in its surrebuttal testimony and now  
18 recommends a cost of equity of 9.4 percent based on the average cost of equity  
19 produced by its DCF models.<sup>2</sup> Staff continues to recommend a capital structure  
20 consisting of 100 percent equity.<sup>3</sup> Based on Staff's recommended capital structure,  
21 Staff determined the WACC for QCW to be 9.4 percent.<sup>4</sup>

22  
23 <sup>1</sup> See Rejoinder Schedule D-4.1.

24 <sup>2</sup> See Surrebuttal Testimony of John A. Cassidy (Cost of Capital) ("Cassidy COC Sb.")  
at 21:11-13.

25 <sup>3</sup> Cassidy COC Sb. at 21:8-9.

26 <sup>4</sup> Surrebuttal Schedule JAC-1.

1           C.    RESPONSES TO STAFF'S SURREBUTTAL CRITICISMS OF THE  
2                    COMPANY'S COST OF CAPITAL ANALYSIS.

3   Q.    PLEASE RESPOND TO MR. CASSIDY'S SURREBUTTAL TESTIMONY  
4           ON PAGES 6 AND 7 THAT QCW SHOULD BE REQUIRED TO  
5           REBALANCE ITS CAPITAL STRUCTURE BECAUSE QCW IS  
6           COMPARABLE TO PIMA UTILITY COMPANY AND LAGO DEL ORO  
7           WATER COMPANY.

8   A.    Mr. Cassidy's testimony is misinforming. While I would agree with Mr. Cassidy  
9           that all three utilities are Class B utilities,<sup>5</sup> they are not comparable in terms of size.  
10          Pima Utility Company ("Pima") and Lago Del Oro Water Company ("Lago") are  
11          4.8 to 5 times and 2.4 to 3 times larger than QCW, respectively, depending on the  
12          point of view. Pima has over 10,000 water and wastewater customers with  
13          authorized revenues of approximately \$5.95 million,<sup>6</sup> and Lago has over 6,000 water  
14          customers and authorized revenues of approximately \$3 million.<sup>7</sup> When comparing  
15          these to QCW, which has approximately 2,000 water customers and is seeking  
16          approximately \$1.25 million in authorized revenues, the three utilities are not as  
17          similar as Mr. Cassidy's simplified analysis portrays.

18   Q.    PLEASE RESPOND TO MR. CASSIDY'S SURREBUTTAL TESTIMONY  
19           ON PAGE 8 THAT RELIANCE ON THE STUDY CONDUCTED BY SCOTT  
20           AND MARTIN FOR INSIGHT ON WHY SMALLER FIRMS TEND TO  
21           HAVE LESS DEBT IS FLAWED BECAUSE THE STUDY LOOKED AT  
22           UNREGULATED FIRMS.

23   A.    I have a number of comments. First, basic financial theory tells us three things about

24           <sup>5</sup> Cassidy COC Sb. at 7:13.

25           <sup>6</sup> See Decision No. 73573 (November 21, 2012).

26           <sup>7</sup> See Decision No. 74564 (June 20, 2014).

1 debt: 1) debt magnifies the equity risk; 2) debt magnifies equity risk at an ever  
2 increasing rate; and 3) the required rate of return on equity goes up at an ever  
3 increasing rate as you add more and more debt.<sup>8</sup> This is true regardless of whether  
4 a firm is regulated or unregulated.

5 Second, risk increases as size decreases. The empirical financial data and  
6 studies support this.<sup>9</sup> Further, rather than simply pointing out the reasons for higher  
7 business risks associated with small utilities operating in Arizona (e.g., lack of  
8 resources, small customer base, lack of geographical diversification, lack of access  
9 to capital markets, high capital requirements, inability to earn authorized revenues),  
10 I have quantified the higher business risk associated with QCW compared to the  
11 water proxy group,<sup>10</sup> which analysis Mr. Cassidy ignores.

12 Third, I do not disagree with Mr. Cassidy that business risk is generally  
13 greater for non-regulated firms.<sup>11</sup> But, that's not the point. Regardless of the  
14 magnitude of business risk, firms tend to offset higher business risk with lower  
15 financial risk. It is not a stretch to suggest that smaller utilities would tend to offset  
16 the higher business risks with lower financial risk. In fact, I believe it is especially  
17 true given that the Commission generally ignores the business risks associated with  
18 small size despite being well aware of the issues and risks associated with the smaller  
19 water and wastewater utilities in Arizona.

20  
21  
22 <sup>8</sup> The Brattle Group, "The Effect of Debt on the Cost of Equity in a Regulatory Setting,"  
23 Edison Electric Institute, Washington D.C. (2005), p. 14.

24 <sup>9</sup> Rebuttal Testimony of Thomas J. Bourassa (Cost of Capital) ("Bourassa COC Rb.") at 13-  
25 17; Direct Testimony of Thomas J. Bourassa (Cost of Capital) ("Bourassa COC Dt.") at 15-  
26 20, 31-32, 34-35, 38-39.

<sup>10</sup> Bourassa COC Dt. at 17:15 – 19:16; Bourassa COC Rb. at 17:1-7.

<sup>11</sup> Cassidy COC Sb. at 8.

1 **Q. HAVE RATEPAYERS BEEN HARMED BY THE COMPANY'S DECISION**  
2 **NOT TO BORROW MONEY TO PAY FOR PLANT BEING PAID FOR AND**  
3 **CONSTRUCTED BY AN AFFILIATE?**

4 A. I don't see how. Rates did not change because of the delay in payment by the utility  
5 for the plant. Adding debt would have required that the Company seek new rates  
6 much sooner, and the new rates would have had an impact on ratepayers much  
7 earlier. Further, adding long-term debt, especially for a utility with a relatively small  
8 customer base, would have increased risk. As a firm becomes riskier, both equity  
9 and debt costs become higher, and the customers will pay those higher costs of  
10 capital through rates. In the case of QCW, that increased risk would also have meant  
11 that QCW would be less financially stable.

12 **Q. PLEASE RESPOND TO MR. CASSIDY'S SURREBUTTAL TESTIMONY**  
13 **ON PAGE 10 THAT STAFF'S COST OF EQUITY ESTIMATE, WHICH**  
14 **INCORPORATES STAFF'S CAPM INTO THE ANALYSIS, IS**  
15 **8.2 PERCENT WITHOUT STAFF'S 60 BASIS POINT ECONOMIC**  
16 **ASSESSMENT ADJUSTMENT AND 8.8 PERCENT WITH STAFF'S**  
17 **60 BASIS POINT ECONOMIC ASSESSMENT ADJUSTMENT.**

18 A. The Staff testimony on its CAPM confirms that there is something wrong with  
19 Staff's CAPM approach, which yields a cost of equity estimate of just 7.6 percent.<sup>12</sup>  
20 This is far below returns that are expected for the water proxy group. Even Staff's  
21 overall result of 8.8 percent, including the 60 basis point upward adjustment, is far  
22 below returns that are expected for the water proxy group. The currently authorized  
23 return for the water proxy group is 9.63 percent.<sup>13</sup> The projected returns for the  
24 water proxy group are 10.2 percent for 2015, 10.2 percent for 2016, and 10.9 percent

25 <sup>12</sup> See Cassidy COC Sb., Exhibit JAC-A. See also Cassidy COC Sb. at 10.

26 <sup>13</sup> See Rejoinder Schedule D-4.2.

1 for 2018-20.<sup>14</sup> The low result produced by Staff's CAPM confirms why Staff has  
2 abandoned consideration of its CAPM in its analysis. The result simply does not  
3 pass the smell test. I completely disagree with Staff that an 8.8 percent equity return  
4 is on the low side or reasonableness;<sup>15</sup> it is well below the low side of reasonableness.

5 **Q. IF THE CAPM RESULTS DO NOT PASS THE SMELL TEST, WHY IS IT A**  
6 **PROBLEM THAT STAFF ISN'T USING THE CAPM?**

7 A. The issue is not with the CAPM itself – although one must understand its  
8 limitations – but whether the inputs employed are sound and the results make sense  
9 given the current market facts and circumstances. This is why I use several measures  
10 to estimate equity return, and why I am critical of Staff's reliance on only one –  
11 the DCF – without any checks and balances.

12 **Q. THANK YOU. WOULD YOU PLEASE RESPOND TO MR. CASSIDY'S**  
13 **SURREBUTTAL TESTIMONY ON PAGES 11 AND 12 REGARDING THE**  
14 **CURRENT MRP FOR THE S&P 500 REFERENCED IN THE WALL STREET**  
15 **JOURNAL ARTICLE YOU CITED IN YOUR REBUTTAL TESTIMONY?**

16 A. Mr. Cassidy misses the point of my testimony. The MRP is one of the highest  
17 estimates going back to 1960, and the cost of equity is not necessarily lower because  
18 of recent stock price increases, as Mr. Cassidy suggests.<sup>16</sup> Using the 5.8 percent as  
19 a comparison to my 9.25 percent current MRP is misplaced, which is why I did not  
20 use it or make reference to it. We have no details regarding how the 5.8 percent was  
21 computed. We know that it is a historical measurement (going back to 1960) rather  
22 than forward looking as my current MRP<sup>17</sup> and we also know that the S&P 500, upon

23 <sup>14</sup> Value Line Ratings & Reports, July 17, 2015.

24 <sup>15</sup> Cassidy COC Sb. at 11:1-5.

25 <sup>16</sup> See Direct Testimony of John A. Cassidy (Cost of Capital) at 35.

26 <sup>17</sup> The historical MRP's Staff and the Company typically employ are based upon  
measurements across 88 years (1926 to 2014).

1 which it is based, is a large company index. *Morningstar* refers to the S&P 500 as a  
2 large company index and cautions that "if using a large company index to calculate  
3 the equity risk premium, an adjustment is usually made to account for the different  
4 risk and return characteristics of small stocks."<sup>18</sup> That said, we do not know whether  
5 it is an arithmetic mean or a geometric mean,<sup>19</sup> or whether it is measured by the  
6 difference between total market returns on the S&P 500 and total returns on long-  
7 term government bonds or the difference between total market returns on the S&P  
8 500 and income returns on long-term government bonds.<sup>20</sup>

9 **Q. DOES COMPARING YOUR 9.25 PERCENT CURRENT MRP TO THE**  
10 **5.8 PERCENT REPORTED BY THE WALL STREET JOURNAL OR TO**  
11 **THE STAFF CURRENT MRP ESTIMATE OF 6.9 PERCENT PROVE THAT**  
12 **YOUR CURRENT MRP IS OVERSTATED?**

13 A. No. I would note that Staff's current MRP, like my current MRP, is higher than the  
14 5.8 percent. I would also note that Staff's 6.9 percent current MRP is less than the  
15 historical long-term MRP of 7.0 percent, suggesting that the current MRP is lower,  
16 not higher as reported in the *Wall Street Journal* article. This contradiction suggests  
17 that Staff's method of estimating the current MRP is flawed.

18 **Q. DO THE COMPARISONS DEMONSTRATE THAT YOUR CURRENT MRP**  
19 **CAPM IS NOT REPRESENTATIVE OF CURRENT MARKET**  
20 **CONDITIONS?**

21 A. No. Simply comparing the MRP estimates doesn't prove anything. I have  
22 thoroughly explained my approach to estimating the current MRP and how it is

23 <sup>18</sup> *Morningstar, Ibbotson SBBI 2013 Valuation Yearbook*, Chapter 7.

24 <sup>19</sup> Arithmetic means are the correct measurement for cost of capital estimation.

25 <sup>20</sup> Staff typically uses MRP based upon the difference between market returns on stocks and  
26 income returns on government bonds. Use of income returns on government bonds in the  
measurement is the correct approach for cost of capital estimation.

1 different and more appropriate than Staff's approach to estimating the current  
2 MRP.<sup>21</sup> Mr. Cassidy has not yet explained why using projected 3-5 year stock price  
3 appreciation potential in a DCF model used to derive the current MRP is more  
4 appropriate than using a 3-5 year earnings growth and a projected 3-5 year dividend  
5 growth as a proxy for growth in a DCF model used to derive the current MRP.

6 **Q. ISN'T STOCK PRICE APPRECIATION ANOTHER TERM FOR STOCK**  
7 **PRICE GROWTH?**

8 A. Yes, and I fail to follow Mr. Cassidy's explanation on pages 16 and 17 of his  
9 surrebuttal testimony of how stock price appreciation and stock price growth are  
10 different. It is a distinction without a difference. Rather than simply concede that  
11 Staff uses stock price growth in a DCF to estimate the current MRP, Mr. Cassidy  
12 confuses the issue first by re-explaining the DCF model and its components, and  
13 then by admitting that Staff uses stock price appreciation to estimate the growth  
14 component.<sup>22</sup> It follows that I also did not understand Mr. Cassidy's explanation of  
15 why stock price appreciation is an "ideal metric" for the growth component.<sup>23</sup>

16 **Q. IS 3-5 YEAR STOCK PRICE APPRECIATION AN IDEAL METRIC FROM**  
17 **WHICH TO COMPUTE THE CURRENT MRP?**

18 A. Staff thinks so.<sup>24</sup> Mr. Cassidy does not explain why the 3-5 year dividend growth  
19 and 3-5 year earnings growth employed in my current MRP estimate are any less  
20 "ideal." The projected dividend growth and projected earnings growth employed in  
21 my DCF model used to derive the current MRP are 3-5 year estimates just as in  
22 Staff's price appreciation potential. And, considering that Staff uses projected

23 \_\_\_\_\_  
24 <sup>21</sup> See Bourassa COC Rb. at 11-13.

25 <sup>22</sup> Cassidy COC Sb. at 16-17.

26 <sup>23</sup> *Id.*

<sup>24</sup> *Id.*



1 dividend growth and projected earnings growth in its DCF growth rate estimate for  
2 its own DCF model, it's curious that Staff does not also use these same metrics in its  
3 DCF to derive its current MRP.

4 **Q. DOES STAFF'S DCF APPROACH USED TO CALCULATE THE CURRENT**  
5 **MRP MISSTATE THE CURRENT MRP?**

6 A. Yes. In calculating the current MRP in the Staff Exhibit JAC-A, Staff calculates the  
7 MRP of 6.9 percent, comprised of a 2.0 percent dividend rate plus a price  
8 appreciation rate of 7.79 percent, less a current 30 year Treasury rate of 2.88 percent.  
9 This detail is found in Staff's work papers and is reproduced in **Exhibit TJB-COC-**  
10 **RJ1, page 1.**

11 The 7.79 percent number is arrived at by taking a *Value Line*<sup>25</sup> forecasted  
12 market price appreciation rate of 35 percent over the next 3–5 years. Staff annualized  
13 that rate over a 4 year period to arrive at 7.79 percent. Although that is a middle-  
14 time estimate, there is no other justification for spreading that return over 4 years.  
15 In fact, if market participants were in complete agreement with this forecast, the  
16 argument could be made that the market would move to this point earlier in order to  
17 capture these returns. If that 35 percent return were annualized over a 3-year period,  
18 then the annualized market appreciation rate of return would be 10.52 percent or a  
19 difference of 2.73 percent in total. This would lead to a current MRP of 9.64 percent  
20 rather than Staff's estimate of 6.9 percent. That has a very large impact on the Staff's  
21 pro forma estimate of QCW's cost of equity that has been based upon a model input  
22 of 4 rather than 3 years.

23 **Q. HOW WOULD THIS MODIFICATION OF THE CURRENT MRP**  
24 **COMPUTATION HAVE CHANGED THE RESULTS OF STAFF'S CAPM**

25  
26 <sup>25</sup> Value Line Summary and Index, May 29, 2015.

1           **AND STAFF'S OVERALL ESTIMATE AS SHOWN ON EXHIBIT JAC-A?**

2       A.     Staff's CAPM results would have been 8.6 percent rather than 8.2 percent, and  
3           Staff's overall results would have been 9.5 percent rather than 8.8 percent.<sup>26</sup> Adding  
4           100 basis points for the additional risk associated with QCW to the 9.5 percent result  
5           yields 10.5 percent, which is higher than my recommendation of 10.0 percent.

6       **Q.     MR. CASSIDY CONTINUES TO CRITICIZE YOU ON THE USE OF**  
7           **FORECASTED INTEREST RATES IN BOTH YOUR CAPM AND RISK**  
8           **PREMIUM MODELS. PLEASE COMMENT.**

9       A.     I previously responded to Staff regarding the use of forecasted (projected) interest  
10           rates and will not repeat that testimony here.<sup>27</sup>

11      **Q.     IS THE USE OF A FORECASTED INTEREST RATE RATHER THAN A**  
12           **SPOT RATE IN YOUR CURRENT MRP CAPM CONTRADICTORY TO**  
13           **DR. MORIN'S EXAMPLE IN HIS TEXT BOOK AS MR. CASSIDY**  
14           **SUGGESTS ON PAGE 14 OF HIS SURREBUTTAL TESTIMONY?**

15      A.     No. Dr. Morin does not say that use of a spot rate is required to use the approach.  
16           I chose a forecasted interest rate rather than a spot interest rate, which even  
17           Mr. Cassidy admits Dr. Morin supports.<sup>28</sup>

18      **Q.     IS THE BETA ESTIMATE FOR THE WATER PROXY GROUP**  
19           **EMPLOYED IN YOUR ANALYSIS OVERSTATED AS SUGGESTED BY**  
20           **MR. CASSIDY ON PAGE 15 OF HIS SURREBUTTAL TESTIMONY?**

21      A.     No. My beta estimates for the water proxy group were obtained from the *Value Line*  
22           Analyzer software, which provides more up to date information than the printed  
23           version of the *Value Line* Ratings and Reports. I note that Mr. Cassidy relies on the

24           <sup>26</sup> Exhibit TJB-COC-RJ1, page 2.

25           <sup>27</sup> Bourassa COC Rb. at 12-13.

26           <sup>28</sup> Cassidy COC Sb. at 14.

1 April 17, 2015 quarterly publication for his beta information. The most recent issue  
2 of *Value Line* Rating and Reports (July 17, 2015) reflects the same betas for the  
3 water proxy group as is used in my analysis. So, it is Mr. Cassidy's beta estimates  
4 that appear misstated; mine are correct.<sup>29</sup>

5 I realize Staff does not use the *Value Line* Analyzer software to obtain *Value*  
6 *Line* data. However, Staff should know that I use the software as I have been using  
7 this source since at least 2007 and have consistently referenced this source in my  
8 schedules. Staff should have refrained from criticizing me until such time as they  
9 could substantiate their criticism. This would have saved time and money. I have  
10 attached copies of the *Value Line* Rating and Reports for each of the publicly traded  
11 water utilities in **Exhibit TJB-COC-RJ2**.

12 **Q. OKAY. NEXT, ON PAGES 17 AND 18 OF HIS SURREBUTTAL,**  
13 **MR. CASSIDY CRITICIZES YOU FOR USING A FORECAST INTEREST**  
14 **RATE IN YOUR RISK PREMIUM MODEL AND RESTATES YOUR RISK**  
15 **PREMIUM MODEL ESTIMATE. PLEASE RESPOND.**

16 A. Again, I previously responded to Staff regarding the use of forecasted (projected)  
17 interest rates and will not repeat that testimony here.<sup>30</sup> That said, I would note that  
18 the historical average annual interest rate is 4.5 percent, which is above the forecast  
19 interest rate of 4.2 percent. Current long-term U.S. Treasury yields are about  
20 2.9 percent, suggesting that current risk premium is higher than the historical risk  
21 premium of 6.4 percent as shown on Schedule D-4.9. In other words, the higher risk  
22 premium associated with the lower current interest rate would not necessarily have  
23 changed the overall indicated cost of equity from my risk premium model. Further,  
24 since the forecast interest rate of 4.2 percent is lower than the historical annual

25 <sup>29</sup> Cassidy COC Sb. at 16.

26 <sup>30</sup> Bourassa COC Rb. at 12-13.

1 average of 4.5 percent, my risk premium model may understate the indicated cost of  
2 equity.

3 **Q. WHY WOULD YOU EXPECT THE RISK PREMIUM TO BE HIGHER**  
4 **BECAUSE CURRENT INTREST RATES ARE BELOW THE LONG-TERM**  
5 **AVERAGE?**

6 A. Because risk premiums tend to vary inversely with interest rates. There is a  
7 theoretical reason, and many sources of empirical data support the proposition that  
8 equity risk premiums increase when interest rates decrease. Harris and Marston  
9 found an inverse relationship,<sup>31</sup> as did Roger Morin in a study reported in chapter 4  
10 of his 2006 book, *New Regulatory Finance*. This is important because future 30-  
11 year Treasury rates are expected to be lower than averages of long-term Treasury  
12 bond rates, which prevailed during the periods used to determine risk premiums.  
13 The average of 30-year Treasury bond rates expected in 2016-2018 of 4.2 percent is  
14 higher than rates are currently, but lower than Treasury bond rates were during most  
15 years used to determine historical relationships between interest rates and equity  
16 costs (and thus, risk premiums) reported in Rejoinder Schedule D-4.9.

17 **Q. DOES MR. CASSIY'S RESTATEMENT OF YOUR RISK PREIMIUM**  
18 **MODEL TO 9.0 PERCENT CHANGE YOUR OPINION AS TO THE**  
19 **RETURN REQUIRED FOR QCW?**

20 A. No. Assuming Mr. Cassidy is correct, adding 100 basis points for the additional risk  
21 associated with QCW to his 9.0 percent result yields 10.0 percent, which is the same  
22 as my recommendation of 10.0 percent for QCW.

23  
24  
25 <sup>31</sup> Harris and Marston, "Estimating Shareholders Risk Premia Using Analysts' Growth  
26 Rates," Financial Management, Summer 1992.

1 Q. DOES THIS CONCLUDE YOUR REJOINDER COST OF CAPITAL  
2 TESTIMONY?

3 A. Yes.  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

# **D SCHEDULES**

Quail Creek Water Company  
Test Year Ended December 31, 2013  
Summary of Cost of Capital

Exhibit  
Rejoinder Schedule D-1  
Page 1  
Witness: Bourassa

<u>End of Test Year</u>			
Percent of Total		Cost Rate	Weighted Cost
0.00%		0.00%	0.00%
100.00%		10.00%	10.00%
100.00%			10.00%

Line No.	Item of Capital
1	Long-Term Debt
2	
3	Stockholder's Equity
4	
5	Totals
6	
7	
8	
9	
10	
11	
12	
13	
14	
15	
16	
17	
18	
19	
20	
21	

SUPPORTING SCHEDULES:

D-1  
D-3  
D-4  
Testimony

22	
23	
24	
25	
26	
27	
28	
29	
30	

**Quail Creek Water Company**

Test Year Ended December 31, 2013

Cost of Long Term Debt

Exhibit

Rejoinder Schedule D-2

Page 1

Witness: Bourassa

Line No.	Description of Debt	End of Test Year			End of Projected Year				
		Amount Outstanding	Annual Interest	Effective Interest Rate	Weighted Cost	Amount Outstanding	Annual Interest	Effective Interest Rate	Weighted Cost
1									
2			-	0.00%	0.00%	-	-	0.00%	0.00%
3			-	0.00%	0.00%	-	-	0.00%	0.00%
4			-	0.00%	0.00%		-	0.00%	0.00%
5			-	0.00%	0.00%		-	0.00%	0.00%
6			-	0.00%	0.00%		-	0.00%	0.00%
7			-	0.00%	0.00%		-	0.00%	0.00%
8			-	0.00%	0.00%		-	0.00%	0.00%
9			-	0.00%	0.00%		-	0.00%	0.00%
10			-	0.00%	0.00%		-	0.00%	0.00%
11			-	0.00%	0.00%		-	0.00%	0.00%
12									
13	Totals	\$ -	-		0.00%	\$ -	-		0.00%
14									

Supporting Schedules:

E-1

E-2



Quail Creek Water Company  
Test Year Ended December 31, 2013  
Cost of Preferred Stock

Exhibit  
Rejoinder Schedule D-3  
Page 1  
Witness: Bourassa

Line  
No.

1

End of Test Year

End of Projected Year

2

3

Description  
of Issue

Shares  
Outstanding    Amount    Dividend  
Requirement

Shares  
Outstanding    Amount    Dividend  
Requirement

4

5

6

7

NOT APPLICABLE, NO PREFERRED STOCK ISSUED OR OUTSTANDING

8

9

10

11

12

13

14

15

16

17

18

19

20

21

SUPPORTING SCHEDULES:

22

E-1

23

24

25

26

27

28

29

30

31

32

33

34

35

36

37

38

39

40

RECAP SCHEDULES:

D-1

Quail Creek Water Company  
Test Year Ended December 31, 2013  
Cost of Common Equity

Exhibit  
Rejoinder Schedule D-4  
Page 1  
Witness: Bourassa

Line

No.

1

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

The Company is proposing a cost of common equity of 10.00% .

SUPPORTING SCHEDULES:

E-1

D-4.1 to D-4.15

RECAP SCHEDULES:

D-1

Quail Creek Water Company  
Summary of Results

Exhibit  
Rejoinder Schedule D-4.1  
Witness: Bourassa

Line No.		<u>Indicated Cost of Equity for Water Sample Group</u>		<u>Indicated Cost of Equity for Quail Creek Water Company</u>	
1	DCF Constant Growth - Table 8	9.4%	to 9.7%	10.4%	to 10.7%
2	Risk Premium Model - Table 10		10.6%		11.6%
3	CAPM - Table 12	9.4%	to 11.0%	10.4%	to 12.0%
4	Range of Cost of Equity Estimates	9.8%	to 10.4%	10.8%	to 11.4%
5	Financial Risk Adjustment - Table 16		0.0%		-0.60%
6	Adjusted Range of Cost of Equity Estimates	9.8%	to 10.4%	10.2%	to 10.8%
7	Mid-point		10.1%		10.5%
8	Cost of Equity Recommendation			10.0%	

Notes:

<sup>1</sup>Estimates include an equity risk premium of 100 basis points based on comparative risk study. See Testimony.

**Quail Creek Water Company**  
**Selected Characteristics of Sample Group of Water Utilities**

**Exhibit**  
**Rejoinder Schedule D-4.2**  
 Witness: Bourassa

Line No.	Company	Symbol	% Water Revenues <sup>1</sup>	Operating Revenues (millions) <sup>1</sup>	Net Plant (millions) <sup>1</sup>	S&P Bond Rating <sup>1</sup>	Moody's Bond Rating <sup>1</sup>	Allowed ROE (%) <sup>1</sup>	Value Line Beta <sup>2</sup>	Market Capitalization <sup>2</sup>	Size Category <sup>3</sup>
1	1. American States Water	AWR	70%	\$ 465.8	\$ 998.9	A+	A2	9.75	0.70	\$ 1,471.5	Low-Cap
2	2. Aqua America	WTR	97%	\$ 779.9	\$ 4,402.0	AA-	NR	9.79	0.75	\$ 4,667.4	Mid cap
3	3. California Water	CWT	100%	\$ 597.5	\$ 1,571.7	AA-	NR	9.43	0.75	\$ 1,142.6	Low-Cap
4	4. Connecticut Water	CTWS	100%	\$ 94.8	\$ 494.6	A/A-	NR	9.63	0.70	\$ 391.0	Micro-cap
5	5. Middlesex	MSEX	86%	\$ 117.1	\$ 465.4	A	NR	9.75	0.75	\$ 356.4	Micro-cap
6	6. SJW Corp.	SJW	96%	\$ 319.7	\$ 943.7	A	NR	9.43	0.80	\$ 609.4	Micro-cap
7	7. York Water Company	YORW	100%	\$ 45.9	\$ 250.5	A-	NR	NM	0.75	\$ 297.2	Micro-cap
8	Average		93%	\$ 345.8	\$ 1,303.8			9.63	0.74	\$ 1,276.5	
9	Quail Creek Water Company		100%	\$ 0.9	\$ 5.9	NR	NR	-			

**Notes:**

<sup>1</sup>AUS Utility Reports (April 2015).

<sup>2</sup>Value Line Analyzer Data (Weekly as of May 14, 2015)

<sup>3</sup> See Schedule D-4.15 for definitions of size category

Quail Creek Water Company  
Capital Structures

Exhibit  
Rejoinder Schedule D-4.3  
Witness: Bourassa

Line No.	Company	Symbol	Book Value <sup>1</sup>		Market Value <sup>1</sup>	
			Long-Term Debt	Common Equity	Long-Term Debt	Common Equity
1	1. American States Water	AWR	39.8%	60.2%	18.1%	81.9%
2	2. Aqua America	WTR	48.9%	51.1%	23.9%	76.1%
3	3. California Water	CWT	41.6%	58.4%	27.2%	72.8%
4	4. Connecticut Water	CTWS	47.0%	53.0%	30.9%	69.1%
5	5. Middlesex	MSEX	40.7%	59.3%	26.7%	73.3%
6	6. SJW Corp.	SJW	51.0%	49.0%	35.5%	64.5%
7	7. York Water Company	YORW	45.0%	55.0%	22.2%	77.8%
8	Average		44.9%	55.1%	26.4%	73.6%
9	Quail Creek Water Company		100.0%	0.0%	N/A	N/A

<sup>1</sup> Value Line Analyzer Data (Weekly as of May 14, 2015)

**Quail Creek Water Company**  
**Comparisons of Past and Future Estimates of Growth**

**Exhibit**  
**Rejoinder Schedule D-4.4**  
 Witness: Bourassa

Line No.	[1] Company	[2] Five-year historical average annual changes	[3] Book	[4] EPS <sup>2</sup>	[5] Average Historical Growth	[6] Value Line Projected Growth <sup>2</sup>	[7] Average of Historical and Proj. Grwth
1	1. American States Water	Price <sup>1</sup> 16.07%	Value <sup>2</sup> 6.50%	DPS <sup>2</sup> 6.50%	10.52%	6.50%	8.51%
2	2. Aqua America	11.70%	6.00%	7.00%	8.92%	8.00%	8.46%
3	3. California Water	4.27%	4.50%	1.50%	3.57%	7.00%	5.28%
4	4. Connecticut Water	12.77%	8.00%	2.00%	7.69%	6.50%	7.10%
5	5. Middlesex	8.36%	3.00%	1.50%	3.59%	5.50%	4.55%
6	6. SJW Corp.	4.38%	2.50%	3.50%	3.46%	6.50%	4.98%
7	7. York Water Company	8.44%	5.00%	2.50%	5.23%	7.00%	6.12%
8	GROUP AVERAGE	9.43%	5.07%	7.08%	6.14%	6.71%	6.43%

**Notes:**

<sup>1</sup> Average of changes in annual stock prices ending on December 31 through 2013. Data from Yahoo Finance website.

<sup>2</sup> Value Line Analyzer, weekly as of May 14, 2015.

**Quail Creek Water Company**  
**Comparisons of Past and Future Estimates of Growth**

**Exhibit**  
**Rejoinder Schedule D-4.5**  
 Witness: Bourassa

Line No.	[1] Company	[2] Price <sup>1</sup>	[3] EPS <sup>2</sup>	[4] DPS <sup>2</sup>	[5] Average Col 1-4	[6] Value Line Growth <sup>2</sup>	[7] Average of Historical and Proj. Grwth
1	1. American States Water	12.91%	9.00%	4.00%	7.85%	6.50%	7.18%
2	2. Aqua America	10.31%	8.50%	7.50%	8.58%	8.00%	8.29%
3	3. California Water	10.19%	5.50%	1.00%	5.55%	7.00%	6.27%
4	4. Connecticut Water	6.58%	2.50%	1.50%	4.14%	6.50%	5.32%
5	5. Middlesex	4.38%	3.50%	1.50%	3.47%	5.50%	4.48%
6	6. SJW Corp.	12.91%	3.50%	4.50%	6.60%	6.50%	6.55%
7	7. York Water Company	8.21%	5.50%	4.50%	6.30%	7.00%	6.65%
8	GROUP AVERAGE	9.35%	5.43%	3.50%	6.07%	6.71%	6.39%

**Notes:**

- <sup>1</sup> Average of changes in annual stock prices ending December 31, 2013. Data from Yahoo Finance website.  
<sup>2</sup> Value Line Analyzer Data, weekly as of May 14, 2015.

**Quail Creek Water Company**  
**Current Dividend Yields for Water Utility Sample Group**

**Exhibit**  
**Rejoinder Schedule D-4.6**  
 Witness: Bourassa

Line No.	Company	[1] Stock Price (P <sub>0</sub> ) <sup>1</sup>	[2] Current Dividend (D <sub>0</sub> ) <sup>1</sup>	[3] Current Dividend Yield (D <sub>0</sub> /P <sub>0</sub> )	[4] Average Annual Dividend Yield (D <sub>0</sub> /P <sub>0</sub> ) <sup>1,2</sup>
1	1. American States Water	\$ 38.66	\$ 0.88	2.28%	2.75%
2	2. Aqua America	\$ 26.56	\$ 0.70	2.64%	2.36%
3	3. California Water	\$ 24.01	\$ 0.67	2.79%	3.12%
4	4. Connecticut Water	\$ 35.16	\$ 1.07	3.04%	3.21%
5	5. Middlesex	\$ 21.79	\$ 0.78	3.58%	3.71%
6	6. SJW Corp.	\$ 30.11	\$ 0.79	2.62%	2.68%
7	7. York Water Company	\$ 22.76	\$ 0.61	2.68%	2.80%
8	GROUP AVERAGE			2.80%	2.95%

**Notes:**

<sup>1</sup> Stock prices as of May 22, 2015. Indicated Dividend from Value Line Analyzer weekly as of May 14, 2015.

<sup>2</sup> Average Annual Dividend is dividends declared per share for a year divided by the average annual price of the stock in the same year, expressed as a percentage. As report by Value Line Analyzer software. For comparison purposes only.



Quail Creek Water Company  
Discounted Cash Flow Analysis  
DCF Constant Growth

Exhibit  
Rejoinder Schedule D-4.7 (page 1)  
Witness: Bourassa

Line No.	[1] Dividend Yield ( $D_0/P_0$ ) <sup>1</sup>	[2] Expected Dividend Yield ( $D_1/P_0$ ) <sup>2</sup>	[3] Value Line Projected Growth (g) <sup>3</sup>	[4] Indicated Cost of Equity (COE) $k = \text{Div Yld} + g$ (Cols 2+3)
1	2.28%	2.42%	6.50%	8.92%
2	2.64%	2.85%	8.00%	10.85%
3	2.79%	2.99%	7.00%	9.99%
4	3.04%	3.24%	6.50%	9.74%
5	3.58%	3.78%	5.50%	9.28%
6	2.62%	2.79%	6.50%	9.29%
7	2.68%	2.87%	7.00%	9.87%
8	Average	2.99%	6.71%	9.71%

Notes:

<sup>1</sup> Spot Dividend Yield =  $D_0/P_0$ . See Rejoinder Schedule D-4.6.

<sup>2</sup> Expected Dividend Yield =  $D_1/P_0 = D_0/P_0 * (1+g)$ .

<sup>3</sup> Value Line Growth rate (g). See Schedule D-4.5, Col. 6.

Quail Creek Water Company  
Discounted Cash Flow Analysis  
DCF Constant Growth

Exhibit  
Rejoinder Schedule D-4.7 (page 2)  
Witness: Bourassa

Line No.	[1] Dividend Yield ( $D_0/P_0$ ) <sup>1</sup>	[2] Expected Dividend Yield ( $D_1/P_0$ ) <sup>2</sup>	[3] Average of Historical and Proj. Growth <sup>3</sup>	[4] Indicated Cost of Equity (COE) $k = \text{Div Yield} + g$ (Cols 2+3)
1	2.28%	2.47%	+	10.98%
2	2.64%	2.86%	+	11.32%
3	2.79%	2.94%	+	8.22%
4	3.04%	3.26%	+	10.36%
5	3.58%	3.74%	+	8.29%
6	2.62%	2.75%	+	7.73%
7	2.68%	2.84%	+	8.96%
8	Average			9.41%

Notes:

<sup>1</sup> Spot Dividend Yield =  $D_0/P_0$ . See Table 7.

<sup>2</sup> Expected Dividend Yield =  $D_1/P_0 = D_0/P_0 * (1+g)$ .

<sup>3</sup> Historical Growth rate (g). See Schedule D-4.5 Col. 7.

**Quail Creek Water Company  
Forecasts of Long-Term Interest Rates**

**Exhibit  
Rejoinder Schedule D-4.8**  
Witness: Bourassa

<u>Line No.</u>		<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Average</u>
1	Long-term Treasury Rates				
2	Blue Chip Consensus Forecasts <sup>1</sup>				
3	Value Line <sup>2</sup>	3.70%	4.30%	4.70%	
4	Average	3.60%	4.20%	4.40%	4.2%
5	Aaa Corporate Bonds				
6	Blue Chip Consensus Forecasts <sup>1</sup>				
7	Value Line <sup>2</sup>	4.70%	5.40%	5.80%	
8	Average	4.60%	5.50%	5.30%	5.2%
9	Baa Corporate Bonds				
10	Blue Chip Consensus Forecasts <sup>1</sup>				
11	Value Line <sup>2</sup>	5.60%	6.10%	6.60%	
12	Average				6.1%

Notes:

<sup>1</sup> Blue Chip consensus forecasts (June 2015).

<sup>2</sup> Value Line Quarterly forecasts dated May 23, 2014.

**Quail Creek Water Company  
Risk Premium Analysis Based on Total Returns**

**Exhibit  
Rejoinder Schedule D-4.9  
Witness: Bourassa**

Line No.	Annual Total Return <sup>1</sup>	Treasury Bond Rates <sup>2</sup>	Annual Risk Premiums
1	1999	5.87%	20.41%
2	2000	5.94%	-3.24%
3	2001	5.49%	10.51%
4	2002	5.42%	-9.58%
5	2003	5.05%	18.67%
6	2004	5.12%	8.66%
7	2005	4.56%	14.46%
8	2006	4.91%	10.95%
9	2007	4.84%	-7.55%
10	2008	4.28%	-6.15%
11	2009	4.08%	-4.28%
12	2010	4.25%	11.01%
13	2011	3.91%	-2.39%
14	2012	2.92%	12.16%
15	2013	3.45%	16.89%
16	2014	2.59%	12.39%
17	16-Year Average	4.5%	6.4%
18	Expected Long-term Treasury Bond Rate <sup>3</sup>		4.2%
19	Projected Returns on Equity for Sample		10.6%

**Notes:**

<sup>1</sup> Composite of average total returns for water utilities. Data from Value Line Analyzer software.

<sup>2</sup> As reported by the Federal Reserve.

<sup>3</sup> Source is Rejoinder Schedule D-4.8.

**Quail Creek Water Company**  
**Estimation of Current Market Risk Premium**  
**Using DCF Analysis**

**Exhibit**  
**Rejoinder Schedule D-4.10**  
**Witness: Bourassa**

Line No.	Month	Dividend Yield ( $D_t/P_{0t}$ ) <sup>1</sup>	Expected Dividend Yield ( $D_t/P_{0t}$ ) <sup>2</sup>	Expected Growth ( $g$ ) <sup>3</sup>	Expected Market Return ( $k$ )	Monthly Average 30 Year Treasury Rate <sup>4</sup>	Expected Market Risk Premium (MRP)
1	May 2014	2.37%	2.59%	+ 9.42%	= 12.01%	= 3.39%	= 8.62%
2	June	2.34%	2.56%	+ 9.33%	= 11.89%	= 3.42%	= 8.47%
3	July	2.42%	2.65%	+ 9.50%	= 12.15%	= 3.33%	= 8.82%
4	Aug	2.38%	2.61%	+ 9.50%	= 12.11%	= 3.20%	= 8.91%
5	Sept	2.82%	3.10%	+ 9.83%	= 12.93%	= 3.26%	= 9.67%
6	Oct	2.45%	2.68%	+ 9.50%	= 12.18%	= 3.04%	= 9.14%
7	Nov	2.38%	2.61%	+ 9.67%	= 12.27%	= 3.04%	= 9.23%
8	Dec	2.44%	2.67%	+ 9.67%	= 12.34%	= 2.83%	= 9.51%
9	Jan 2015	2.45%	2.68%	+ 9.50%	= 12.18%	= 2.46%	= 9.72%
10	Feb	2.38%	2.61%	+ 9.50%	= 12.11%	= 2.57%	= 9.54%
11	Mar	2.42%	2.64%	+ 9.17%	= 11.81%	= 2.63%	= 9.18%
12	Apr	2.40%	2.61%	+ 9.00%	= 11.61%	= 2.59%	= 9.02%
13	Recommended	2.40%	2.62%	+ 9.22%	= 11.84%	= 2.60%	= 9.25%
14	Short-term Trends						
15	Recent Twelve Months Avg	2.44%	2.67%	+ 9.47%	= 12.13%	= 2.98%	= 9.15%
16	Recent Nine Months Avg	2.46%	2.69%	+ 9.48%	= 12.17%	= 2.85%	= 9.32%
17	Recent Six Months Avg	2.41%	2.64%	+ 9.42%	= 12.05%	= 2.69%	= 9.37%
18	Recent Three Months Avg	2.40%	2.62%	+ 9.22%	= 11.84%	= 2.60%	= 9.25%

**Notes:**

- <sup>1</sup> Average Dividend Yield ( $D_t/P_{0t}$ ) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks
- <sup>2</sup> Expected Dividend Yield ( $D_t/P_{0t}$ ) equals current average dividend yield ( $D_t/P_{0t}$ ) times one plus growth rate(g).
- <sup>3</sup> Median of Projected EPS, Projected DPS Growth and Projected BV Growth for VL 1700 stocks. Data from Value Line Investment Analyzer Software.
- <sup>4</sup> Monthly average 30 year U.S. Treasury. Federal Reserve.

Quail Creek Water Company  
Traditional Capital Asset Pricing Model (CAPM)

Exhibit  
Rejoinder Schedule D-4.11  
Witness: Bourassa

Line No.		<u>R<sub>f</sub></u> <sup>1</sup>	+	<u>beta</u> <sup>2</sup>	x	<u>RP<sub>M</sub></u>	=	<u>k</u>
1	Historical Market Risk Premium CAPM	4.2%	+	0.74	x	7.00%	=	9.4%
2	Current Market Risk Premium CAPM	4.2%	+	0.74	x	9.25%	=	11.0%
3	Average							10.2%

Notes:

<sup>1</sup> Forecasts of long-term treasury yields. See Rejoinder Schedule D-4.8.

<sup>2</sup> Value Line Investment Analyzer data. See Rejoinder Schedule D-4.3.

<sup>3</sup> Historical Market Risk Premium Duff & Phelps 2015 Valuation Handbook, Appendix 3, Long-Horizon ERP.

<sup>4</sup> See Table 11.

Quail Creek Water Company  
Financial Risk Computation  
Unlevered Beta

Exhibit  
Rejoinder Schedule D-4.12  
Witness: Bourassa

Line No.	Company	VL Beta $\beta_L^1$	Raw Beta $\beta_{L^2}$	Tax Rate $t^3$	MV Debt $\frac{D^4}{E}$	MV Equity $\frac{E^4}{E}$	Unlevered Raw Beta $\beta_{L^5}$
1	American Water Worl	0.70	0.55	36.3%	18.1%	81.9%	0.48
2	Aqua America	0.75	0.63	10.0%	23.9%	76.1%	0.49
3	California Water	0.75	0.63	30.3%	27.2%	72.8%	0.50
4	Connecticut Water	0.70	0.55	28.0%	30.9%	69.1%	0.42
5	Middlesex	0.75	0.63	34.1%	26.7%	73.3%	0.51
6	SJW Corp.	0.80	0.70	38.7%	35.5%	64.5%	0.52
7	York Water	0.75	0.63	37.6%	22.2%	77.8%	0.53
13	Sample Water Utilitie:	0.74	0.62	30.7%	26.4%	73.6%	0.49

<sup>1</sup> Value Line Investment Analyzer data. See Rejoinder Schedule D-4.1.

Value Line uses the historical data of the stock, but assumes that a security's beta moves toward the market average over time. The formula is as follows:

Adjusted beta =  $.33 + (.67) * \text{Raw beta}$

<sup>2</sup> Raw Beta =  $(VL \text{ beta} - .33) / (.67)$

<sup>3</sup> Effective tax rates for year ended December 31, 2013.

<sup>4</sup> See Rejoinder Schedule D-4.2.

<sup>5</sup> Raw  $B_u$  =  $\text{Raw } B_L / (1 + (1-t) * D/E)$

Quail Creek Water Company  
Financial Risk Computation  
Relevered Beta

Exhibit  
Rejoinder Schedule D-4.13  
Witness: Bourassa

Line No.	Unlevered Raw Beta $\beta_{UL}^1$	MV Book Debt $BD^2$	MV Equity Capital $EC^2$	Tax Rate $t^3$	Relevered Raw Beta $\beta_{RL} = \beta_U (1 + (1-t)BD/EC)$	Adjusted Relevered Beta $\beta_{RL}$
1	0.49	0.0%	100.0%	39.20%	0.49	0.66
2						
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						
13						
14						
15						
16						
17						
18						
19						
20						
21						
22						
23						
24						
25						
26						

<sup>1</sup> Unlevered Beta from Unlevered Beta tab in WP.

<sup>2</sup> Proforma Capital Structure of Company per D-1

	BV (in Thousands)	MV (in Thousands)	MV %
Long-term Debt	\$ -	\$ -	0.00%
Preferred Stock	\$ -	\$ -	0.00%
Common Stock	\$ 5,778	\$ 13,688	100.0%
Total Capital	\$ 5,778	\$ 13,688	100.0%

(a) Current market-to-book ratio of sample water utilities. See work papers.

<sup>3</sup> Current Tax rate based on test year ending 12/31/2013. See Schedule C-5.



Quail Creek Water Company  
Financial Risk Computation

Exhibit  
Rejoinder Schedule D-4.14  
Witness: Bourassa

Line No.	<u>CAPM</u>					
1						
2						
3	Historical Market Risk Premium	Rf	+	$\beta$	X	(Rp)
4		4.2%	1	0.74	2	3
5	Current Market Risk Premium	4.2%	1	0.74	2	4
6						
7	Average					
8						
9						
10						
11	Historical Market Risk Premium	Rf	+	$\beta$	X	(Rp)
12		4.2%	1	0.66	5	3
13	Current Market Risk Premium	4.2%	1	0.66	5	4
14						
15	Average					
16	Indicated Financial Risk Adjustment					
17						
18						
19						
20						
21						
22						
23						
24						
25						

1 Forecast of long-term treasury yields. See Rejoinder Schedule D-4.8.  
2 Value Line Investment Analyzer data. See Rejoinder Schedule D-4.1.  
3 Historical Market Risk Premium from (Rp) Duff & Phelps 2015 Valuation Handbook Appendix3 Long-Horizon ERP 1926-2013.  
4 Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Rejoinder Schedule D-4.10.  
5 Relivered beta found on Relivered Beta. See Rejoinder Schedule D-4.15.

**Quail Creek Water Company  
Risk Premium<sup>1</sup>**

**Exhibit  
Rejoinder Schedule D-4.15  
Witness: Bourassa**

Line No.	Beta( $\beta$ )	Size Premium	Risk Premium for Small Water Utilities <sup>7</sup>
1	1.12	1.07%	
2	1.22	1.80%	
3	1.35	3.74%	
4	1.40	5.78%	3.25%
5	Estimated Risk Premium for small utilities <sup>6</sup>		
6	Estimated Risk Premium for Quail Creek Water Company <sup>8</sup>		
			0.99% to 1.10%

<sup>1</sup> Data from Table 4-7 of Duff & Phelps, 2015 Valuation Handbook Guide to Cost of Capital.

<sup>2</sup> Mid-Cap companies includes companies with market capitalization between \$2,552 million and \$10,106 million.

<sup>3</sup> Low-Cap companies includes companies with market capitalization between \$549 million and \$2,552 million.

<sup>4</sup> Micro-Cap companies includes companies with market capitalization less than \$549 million.

<sup>5</sup> Decile 10 includes companies with market capitalization less than \$301 million.

<sup>6</sup> From Table 2, Thomas M. Zepp, "Utility Stocks and the Size Effect Revisited," *The Quarterly Review of Economics and Finance*, 43 (2003), 578-582.

<sup>7</sup> Computed as the weighted differences between the Micro-Cap risk premium and the indicated risk premiums for the sample water utilities as shown below. Excludes risk due to differences in beta.

	Market Cap.		Size Premium	Difference to Decile 10	Weight	Weighted Size Premium
	(Millions)	Class				
1.	American States	\$ 1,472	Low-Cap	1.80%	0.14285714	0.57%
2.	Aqua America	\$ 4,667	Mid-Cap	1.07%	0.14285714	0.67%
3.	California Water	\$ 1,143	Low-Cap	1.80%	0.14285714	0.57%
4.	Connecticut Water	\$ 391	Micro-Cap	3.74%	0.14285714	0.29%
5.	Middlesex	\$ 356	Micro-Cap	3.74%	0.14285714	0.29%
6.	SJW Corp.	\$ 609	Micro-Cap	1.80%	0.14285714	0.57%
7.	York Water Company	\$ 297	Micro-Cap	3.74%	0.14285714	0.29%
	Average		2.53%	Wgtd Size Prem. for Small Utilities		3.25%

<sup>8</sup> Results of Comparative Risk Study. See work papers.

**EXHIBIT**  
**TJB-COC-RJ1**

Quail Creek Water Company, Inc. Cost of Capital Calculation  
Final Cost of Equity Estimates  
Sample Water Utilities

**Pro Forma Restatement of Surrebuttal Schedule JAC-3**  
**As if Staff's Cost of Equity Estimate were based on the Average of**  
**Staff's DCF and CAPM Cost of Equity Estimation Models**

[A]	[B]	[C]	[D]	[E]			
<b>DCF Method</b>		<b><math>D_1/P_0</math><sup>1</sup></b>	<b>+</b>	<b><math>g</math><sup>2</sup></b>	<b>=</b>	<b>k</b>	
Constant Growth DCF Estimate		2.8%	+	5.6%	=	8.4%	
Multi-Stage DCF Estimate					=	<u>9.1%</u>	
Average DCF Estimate						<b>8.8%</b>	
<b>CAPM Method</b>	<b>Rf</b>	<b>+</b>	<b><math>b</math><sup>5</sup></b>	<b>x</b>	<b>(Rp)</b>	<b>=</b>	<b>k</b>
Historical Market Risk Premium <sup>3</sup>	1.9%	+	0.72	x	7.5% <sup>6</sup>	=	7.3%
Current Market Risk Premium <sup>4</sup>	2.9%	+	0.72	x	6.9% <sup>7</sup>	=	<u>7.9%</u>
Average CAPM Estimate							<b>7.6%</b>
Staff's Estimated Cost of Equity							<b>8.2%</b>
Economic Assessment Adjustment							<u>0.6%</u>
Sub-Total							<b>8.8%</b>
Financial Risk Adjustment							<u>0.0%</u>
<b>Total</b>							<b>8.8%</b>

1 MSN Money and Value Line

2 Schedule JAC-8

3 Risk-free rate (Rf) for 5, 7, and 10 year Treasury rates from the U.S. Treasury Department at [www.ustreas.gov](http://www.ustreas.gov)4 Risk-free rate (Rf) for 30 Year Treasury bond rate from the U.S. Treasury Department at [www.ustreas.gov](http://www.ustreas.gov)

5 Value Line

6 Historical Market Risk Premium (Rp) calculated from 2014 Ibbotson SBBi Classic Yearbook data

7 Testimony

Calculation of current market risk premium					
<b>Long-Term</b>		<b>Beta of</b>		<b>Current</b>	
<b>Treasury</b>		<b>Market</b>			
<b>2.88%</b>	<b>+</b>	<b>1.00</b>	<b>x</b>	<b>6.91%</b>	<b>= 9.79%</b>
		<b>Expected</b>		<b>Expected</b>	
		<b>Div. Yield</b>		<b>Growth</b>	
<b>Value Line Stocks</b>		<b>2.00%</b>	<b>+</b>	<b>7.79%</b>	<b>= 9.79%</b>

8

Value Line Appreciation Potential **35%**

Treasury Yields: <b>5/27/2015</b>	
5-YR	<b>1.53%</b>
7-YR	<b>1.90%</b>
10-YR	<b>2.14%</b>
AVG:	<b>1.86%</b>

Expected Dividend Yield and Appreciation Potential  
updated as per May 29, 2015 Value Line Summary & Index  
Value Line Median Estimated Dividend Yield: 2.0%  
Value Line 3-5 year Price Appreciation Potential: 35%

<sup>8</sup> From <http://www.ustreas.gov>

Quail Creek Water Company, Inc. Cost of Capital Calculation  
Final Cost of Equity Estimates  
Sample Water Utilities

Pro Forma Restatement of Surrebuttal Schedule JAC-3  
As if Staff's Cost of Equity Estimate were based on the Average of  
Staff's DCF and CAPM Cost of Equity Estimation Models

[A]	[B]	[C]	[D]	[E]			
<b>DCF Method</b>		$D_1/P_0$ <sup>1</sup>	+	$g$ <sup>2</sup>	=	<b>k</b>	
Constant Growth DCF Estimate		2.8%	+	6.3%	=	9.1%	
Multi-Stage DCF Estimate					=	<u>9.2%</u>	
Average DCF Estimate						<b>9.2%</b>	
<b>CAPM Method</b>	<b>Rf</b>	+	$b$ <sup>5</sup>	x	<b>(Rp)</b>	=	<b>k</b>
Historical Market Risk Premium <sup>3</sup>	1.9%	+	0.72	x	7.5% <sup>6</sup>	=	7.3%
Current Market Risk Premium <sup>4</sup>	2.9%	+	0.72	x	9.6% <sup>7</sup>	=	<u>9.8%</u>
Average CAPM Estimate							<b>8.6%</b>
Staff's Estimated Cost of Equity						<b>8.9%</b>	
Economic Assessment Adjustment						<u>0.6%</u>	
Sub-Total						<b>9.5%</b>	
Financial Risk Adjustment						<u>0.0%</u>	
<b>Total</b>						<b>9.5%</b>	

1 MSN Money and Value Line

2 Schedule JAC-8

3 Risk-free rate (Rf) for 5, 7, and 10 year Treasury rates from the U.S. Treasury Department at [www.ustreas.gov](http://www.ustreas.gov)

4 Risk-free rate (Rf) for 30 Year Treasury bond rate from the U.S. Treasury Department at [www.ustreas.gov](http://www.ustreas.gov)

5 Value Line

6 Historical Market Risk Premium (Rp) calculated from 2014 Ibbotson SBBi Classic Yearbook data

7 Testimony

Calculation of current market risk premium					
Long-Term		Beta of		Current	
Treasury		Market			
2.88%	+	1.00	x	9.64%	= 12.52%
		Expected		Expected	COE
		Div. Yield		Growth	Est.
Value Line Stocks		2.00%	+	10.52%	= 12.52%

Treasury Yields: 5/27/2015		
5-YR		1.53%
7-YR		1.90%
10-YR		2.14%
AVG:		1.86%

Value Line Appreciation Potential 35%

Expected Dividend Yield and Appreciation Potential  
updated as per May 29, 2015 Value Line Summary & Index  
Value Line Median Estimated Dividend Yield: 2.0%  
Value Line 3-5 year Price Appreciation Potential: 35%

<sup>8</sup> From <http://www.ustreas.gov>

**EXHIBIT**  
**TJB-COC-RJ2**

# AMER. STATES WATER NYSE-AWR

RECENT PRICE **38.79** P/E RATIO **24.2** (Trailing: 24.1 Median: 20.0) RELATIVE P/E RATIO **1.27** DIV'D YLD **2.3%** VALUE LINE

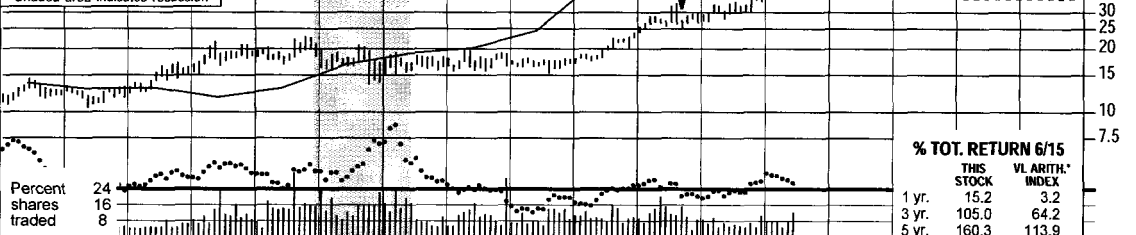
**TIMELINESS** 2 Raised 6/5/15  
**SAFETY** 2 Raised 7/20/12  
**TECHNICAL** 2 Raised 7/3/15  
**BETA** .70 (1.00 = Market)

**LEGENDS**  
 — 1.25 x Dividends p sh  
 divided by Interest Rate  
 ... Relative Price Strength  
 3-for-2 split 6/02  
 2-for-1 split 9/13  
 Options: Yes  
 Shaded area indicates recession

**2018-20 PROJECTIONS**  
 Price Gain Ann'l Total  
 High 50 (+30%) 9%  
 Low 35 (-10%) Nil

**Insider Decisions**  
 to Buy A S O N D J F M A  
 to Sell 0 0 0 0 0 0 0 0 0 0 0 0  
 Options 0 0 0 0 0 0 0 0 0 0 0 0  
 to Sell 0 0 0 0 0 0 0 0 0 0 0 0

**Institutional Decisions**  
 to Buy 3Q2014 4Q2014 1Q2015  
 to Sell 81 99 86  
 Hld's(000) 23032 23380 23637



1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	© VALUE LINE PUB. LLC	18-20
6.45	6.08	6.53	6.89	6.99	6.81	7.03	7.88	8.75	9.21	9.74	10.71	11.12	12.12	12.19	12.17	12.35	13.35	Revenues per sh	15.35
1.13	1.10	1.26	1.27	1.04	1.11	1.32	1.45	1.65	1.69	1.70	2.11	2.13	2.48	2.65	2.67	2.70	2.80	"Cash Flow" per sh	3.70
.60	.64	.67	.67	.39	.53	.66	.67	.81	.78	.81	1.11	1.12	1.41	1.61	1.57	1.60	1.65	Earnings per sh A	2.15
.43	.43	.43	.44	.44	.44	.45	.46	.48	.50	.51	.52	.55	.64	.76	.83	.88	.93	Div'd Decl'd per sh B	1.12
2.15	1.51	1.59	1.34	1.88	2.51	2.12	1.95	1.45	2.23	2.09	2.12	2.13	1.77	2.52	1.89	2.05	2.10	Cap'l Spending per sh	2.40
5.91	6.37	6.61	7.02	6.98	7.51	7.86	8.32	8.77	8.97	9.70	10.13	10.84	11.80	12.72	13.24	13.80	14.25	Book Value per sh	15.45
26.87	30.24	30.24	30.36	30.42	33.50	33.60	34.10	34.46	34.60	37.06	37.26	37.70	38.53	38.72	38.29	38.00	37.50	Common Shs Outst'g C	37.50
17.1	15.9	16.7	18.3	31.9	23.2	21.9	27.7	24.0	22.6	21.2	15.7	15.4	14.3	17.2	20.1	20.1	20.1	Avg Ann'l P/E Ratio	20.5
.97	1.03	.86	1.00	1.82	1.23	1.17	1.50	1.27	1.36	1.41	1.00	.97	.91	.97	1.06	1.06	1.06	Relative P/E Ratio	1.30
4.2%	4.2%	3.9%	3.6%	3.5%	3.6%	3.1%	2.5%	2.5%	2.9%	2.9%	3.0%	3.2%	3.1%	2.7%	2.6%	2.6%	2.6%	Avg Ann'l Div'd Yield	2.5%

**CAPITAL STRUCTURE as of 3/31/15**  
 Total Debt \$326.0 mill. Due in 5 Yrs \$41.6 mill.  
 LT Debt \$325.7 mill. LT Interest \$21.5 mill.  
 (40% of Cap'l)

**Leases, Uncapitalized:** Annual rentals \$0.4 mill.  
**Pension Assets-12/14** \$140.6 mill.  
**Oblig.** \$185.2 mill.

**Pfd Stock None.**  
**Common Stock** 37,779,984 shs.  
 as of 5/1/15

**MARKET CAP: \$1.5 billion (Mid Cap)**

CURRENT POSITION	2013	2014	3/31/15
Cash Assets	38.2	76.0	74.7
Other	153.4	133.5	114.7
Current Assets	191.6	209.5	189.4
Accts Payable	49.8	41.9	37.0
Debt Due	6.3	.3	.3
Other	44.8	57.1	59.4
Current Liab.	100.9	99.3	96.7
Fix. Chg. Cov.	531%	533%	545%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '12-'14 to '18-'20
Revenues	6.0%	5.5%	4.0%
"Cash Flow"	8.5%	9.0%	6.0%
Earnings	11.0%	14.0%	6.0%
Dividends	5.5%	8.5%	8.0%
Book Value	6.0%	6.5%	4.0%

Cal-endar	QUARTERLY REVENUES (\$ mill.)	Full Year
	Mar.31 Jun. 30 Sep. 30 Dec. 31	
2012	107.6 114.3 133.5 111.5	466.9
2013	110.6 120.7 130.9 109.9	472.1
2014	102.0 115.6 138.3 109.9	465.8
2015	100.9 117.1 140 112	470
2016	105 125 150 120	500

Cal-endar	EARNINGS PER SHARE A	Full Year
	Mar.31 Jun. 30 Sep. 30 Dec. 31	
2012	.27 .40 .49 .26	1.41
2013	.35 .43 .53 .30	1.61
2014	.28 .39 .54 .36	1.57
2015	.32 .44 .54 .30	1.60
2016	.31 .46 .57 .31	1.65

Cal-endar	QUARTERLY DIVIDENDS PAID B	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2011	.13 .14 .14 .14	.55
2012	.14 .14 .1775 .1775	.64
2013	.1775 .1775 .2025 .2025	.76
2014	.2025 .2025 .213 .213	.83
2015	.213 .213	

**BUSINESS:** American States Water Co. operates as a holding company. Through its principal subsidiary, Golden States Water Company, it supplies water to 258,191 customers in 75 communities and 10 counties. Service areas include the greater metropolitan areas of Los Angeles and Orange Counties. The company also provides electric utility services to 23,716 customers in

**American States Water's main subsidiary should not be impacted by the ongoing drought in California.** As is the case with two other water utilities in this group, the company's main business is located in the Golden State. Governor Jerry Brown implemented mandatory restrictions on water usage aimed at reducing demand about 25%. A decline in consumption used to have a negative impact on a utility's bottom line. This has not been the case for the last few years, as the California Public Utility Commission (CPUC) changed the way companies operating under its jurisdiction calculated net income. Based on the new structure, utilities' income is more of a fixed rate charge (similar to a service fee) rather than one determined by the quantity of water sold. **Earnings growth probably will not be too impressive over the next two years.** One reason is that American States is close to the allowed return on equity that is set by the CPUC. All told, we expect the company's share earnings to only rise 2% in 2015, followed by a 3% gain in 2016.

**American States' balance sheet is**

the city of Big Bear Lake and in areas of San Bernardino County. Sold Chaparral City Water of Arizona (6/11). Has 707 employees. Blackrock, Inc., owns 9.8% of out. shares: Vanguard, 8.5%; off. & dir. 1.5%. (4/15 Proxy). Chairman: Lloyd Ross. President & CEO: Robert J. Spowls. Inc. CA. Addr: 630 East Foothill Boulevard, San Dimas, CA 91773. Tel: 909-394-3600. Internet: www.aswater.com.

**strong for a water utility.** Of the nine members in this industry, only one of the company's peers can match its A Financial Strength rating. Indeed, American States was the only regulated company to end last year with an equity-to-total capital ratio over the 60% level. Like the rest of the industry, the company has a large projected capital budget through late in the decade. And even though certain of its financial metrics will decline through that time, American States should remain in sound financial condition.

**Short-term and technical-investors may find these shares of interest.** Early last month, our proprietary system raised the ranking of American States' stock one notch to 2 (Above Average) for year-ahead relative price performance. On July 3rd, the Technical rank was also raised to 2.

**On the other hand, long-term investors may want to wait on the sidelines for now.** Total return prospects for American Water shares through 2018-2020 are subpar, as they are already trading within our projected Target Price Range.

James A. Flood July 17, 2015

(A) Primary earnings. Excludes nonrecurring gains/(losses): '04, 7¢; '05, 13¢; '06, 3¢; '08, (14¢); '10, (23¢); '11, 10¢. Next earnings report due mid-August. Quarterly earnings may not add due to rounding.  
 (B) Dividends historically paid in early March, June, September, and December. Div'd reinvestment plan available.  
 (C) In millions, adjusted for splits.  
 © 2015 Value Line, Inc. All rights reserved. Factual material is obtained from sources believed to be reliable and is provided without warranties of any kind. THE PUBLISHER IS NOT RESPONSIBLE FOR ANY ERRORS OR OMISSIONS HEREIN. This publication is strictly for subscriber's own, non-commercial, internal use. No part of it may be reproduced, resold, stored or transmitted in any printed, electronic or other form, or used for generating or marketing any printed or electronic publication, service or product.  
 Company's Financial Strength A  
 Stock's Price Stability 85  
 Price Growth Persistence 75  
 Earnings Predictability 85  
 To subscribe call 1-800-VALUELINE





# CALIFORNIA WATER NYSE-CWT

RECENT PRICE **23.70** P/E RATIO **19.0** (Trailing: 17.8 Median: 20.0) RELATIVE P/E RATIO **1.00** DIV'D YLD **2.9%** VALUE LINE

**TIMELINESS** 3 Raised 6/20/14  
**SAFETY** 3 Lowered 7/27/07  
**TECHNICAL** 2 Raised 7/3/15  
**BETA** .75 (1.00 = Market)

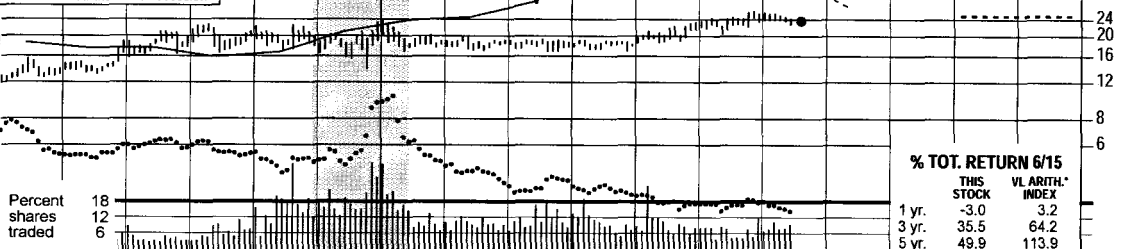
High: 19.0 21.1 22.9 22.7 23.3 24.1 19.8 19.4 19.3 23.4 26.4 26.0  
 Low: 13.0 15.6 16.4 17.1 13.8 16.7 16.9 16.7 16.8 18.4 20.3 22.6

LEGENDS  
 1.33 x Dividends p sh  
 divided by Interest Rate  
 Relative Price Strength  
 2-for-1 split  
 Options: Yes  
 Shaded area indicates recession

**2018-20 PROJECTIONS**  
 Price Gain Ann'l Total  
 High 35 (+50%) 12%  
 Low 25 (+5%) 4%

**Insider Decisions**  
 A S O N D J F M A  
 to Buy 0 0 0 0 0 0 0 0 0 0 0 0  
 Options 1 0 0 0 0 0 0 0 0 0 0 0  
 to Sell 0 0 0 3 2 0 0 0 0 0 0 0

**Institutional Decisions**  
 3Q2014 4Q2014 1Q2015  
 to Buy 53 81 79  
 to Sell 53 59 67  
 Mkt's (000) 29552 29654 29379



1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	© VALUE LINE PUB. LLC	18-20
7.98	8.08	8.13	8.67	8.18	8.59	8.72	8.10	8.88	9.90	10.82	11.05	12.00	13.34	12.23	12.50	12.80	13.25	Revenues per sh	16.80
1.37	1.26	1.10	1.32	1.26	1.42	1.52	1.36	1.56	1.86	1.93	1.93	2.07	2.32	2.21	2.47	2.60	2.65	"Cash Flow" per sh	3.20
.77	.66	.47	.63	.61	.73	.74	.67	.75	.95	.98	.91	.86	1.02	1.02	1.19	1.25	1.25	Earnings per sh <sup>A</sup>	1.55
.54	.55	.56	.56	.56	.57	.57	.58	.58	.59	.59	.60	.62	.63	.64	.65	.67	.69	Div'd Decl'd per sh <sup>B</sup>	.97
1.72	1.23	2.04	2.91	2.19	1.87	2.01	2.14	1.84	2.41	2.66	2.97	2.83	3.04	2.58	2.76	2.50	2.60	Cap'l Spending per sh	3.10
6.71	6.45	6.48	6.56	7.22	7.83	7.90	9.07	9.25	9.72	10.13	10.45	10.76	11.28	12.54	13.11	13.75	14.25	Book Value per sh <sup>C</sup>	16.00
25.87	30.29	30.36	30.36	33.86	36.73	36.78	41.31	41.33	41.45	41.53	41.67	41.82	41.98	47.74	47.81	48.00	48.00	Common Shs Outst'g <sup>D</sup>	50.00
17.8	19.6	27.1	19.8	22.1	20.1	24.9	29.2	26.1	19.8	19.7	20.3	21.3	17.9	20.1	19.7	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	20.0
1.01	1.27	1.39	1.08	1.26	1.06	1.33	1.58	1.39	1.19	1.31	1.29	1.34	1.14	1.13	1.04			Relative P/E Ratio	1.25
4.0%	4.3%	4.4%	4.5%	4.2%	3.9%	3.1%	2.9%	3.0%	3.1%	3.1%	3.2%	3.4%	3.5%	3.1%	2.8%			Avg Ann'l Div'd Yield	3.2%

**CAPITAL STRUCTURE as of 3/31/15**  
 Total Debt \$534.7 mill. Due in 5 Yrs \$165.8 mill.  
 LT Debt \$419.0 mill. LT Interest \$20.0 mill.  
 (40% of Cap'l)

**Pension Assets-12/14** \$306.3 mill.  
 Oblig. \$390.6 mill.

**Pfd Stock** None

**Common Stock** 47,880,233 shs.  
 as of 4/27/15

**MARKET CAP: \$1.1 billion (Mid Cap)**

CURRENT POSITION (\$MILL.)	2013	2014	3/31/15
Cash Assets	27.5	19.6	33.3
Other	112.0	134.5	126.0
Current Assets	139.5	154.1	159.3
Accts Payable	55.1	59.4	57.7
Debt Due	54.7	85.7	115.7
Other	56.8	72.6	80.5
Current Liab.	166.6	217.7	253.9

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '12-'14 to '18-'20
Revenues	4.0%	5.0%	5.0%
"Cash Flow"	6.0%	5.5%	5.0%
Earnings	5.0%	4.0%	7.5%
Dividends	1.5%	2.0%	7.0%
Book Value	5.5%	5.0%	5.5%

Cal-endar	QUARTERLY REVENUES (\$ mill.) <sup>E</sup>				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2012	116.8	143.6	178.1	121.5	560.0
2013	111.4	154.6	184.4	133.7	584.1
2014	110.5	158.4	191.2	137.4	597.5
2015	122.0	160	193	140	615
2016	120	170	200	145	635

Cal-endar	EARNINGS PER SHARE <sup>A</sup>				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2012	.03	.31	.56	.12	1.02
2013	.01	.28	.61	.12	1.02
2014	d.11	.36	.70	.24	1.19
2015	.03	.35	.72	.15	1.25
2016	.03	.35	.72	.15	1.25

Cal-endar	QUARTERLY DIVIDENDS PAID <sup>B</sup> =				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2011	.154	.154	.154	.154	.62
2012	.1575	.1575	.1575	.1575	.63
2013	.16	.16	.16	.16	.64
2014	.1625	.1625	.1625	.1625	.65
2015	.1675	.1675			

**The state's historic drought should result in a sharp decline in demand by California Water's customers.** In response to the lack of rainfall, Governor Brown mandated a 25% reduction in urban, potable water use. The new regulations are established to achieve water use decreases of between 8% and 36%, compared to the amount consumed in 2013. Surcharges will be assigned to those who fail to meet the new regulations.

**The conservation measures should not have a major impact on the company.** In order to cut water usage, California established mechanisms that changed how water utilities make a profit. According to the new methodology, revenues and earnings were switched from a "quantity based" to a "fixed-rate charge" system. Basically, a water company will not be penalized if demand falls. Revenues are now constructed to be more like a service fee.

**We expect earnings to increase by a decent amount this year and be flat in 2016.** As a result of a petition for higher rates filed in 2012, California Water was allowed to institute higher rates in the

second half of 2014. This should enable share earnings to rise 5%, to \$1.25, in 2015, and remain unchanged in 2016.

**A new rate case was recently filed.** California water utilities are required to file rate cases every three years. California Water is seeking hikes of \$95 million in 2017, \$23 million in 2018, and \$23 million in 2019. Like most of its peers, the utility is spending to upgrade and modernize its pipeline infrastructure. A final decision by regulators (the CPUC) is expected in 2017.

**California regulators have generally been constructive in dealing with water utilities.** One of the most important factors affecting a utility is how a state treats companies under its jurisdiction. The CPUC realizes that maintenance work on water infrastructure has been neglected in the past and more money must be spent to improve services.

**These shares' total return potential through late decade is slightly below average.** Still, conservative investors willing to accept less of a payoff in exchange for low volatility might find this stock suitable.

quired Rio Grande Corp; West Hawaii Utilities (9/08). Revenue breakdown, '14: residential, 68%; business, 19%; industrial, 5%; public authorities, 3%; other 5%. '14 reported depreciation rate: 4.0%. Has 1,105 employees. President, Chairman, and CEO: Peter C. Nelson, Inc.; DE. Address: 1720 North First St., San Jose, CA 95112-4598. Tel: 408-367-8200. Internet: www.calwatergroup.com.

James A. Flood July 17, 2015

(A) Basic EPS. Excl. nonrecurring gain (loss): '00, (4¢); '01, 2¢; '02, 4¢; '11, 4¢. Next earnings report due mid-Aug. (B) Dividends historically paid in late Feb., May, Aug., and Nov. (C) Incl. intangible assets. In '14: \$7.3 mill., \$0.15/sh. (D) In millions, adjusted for splits.

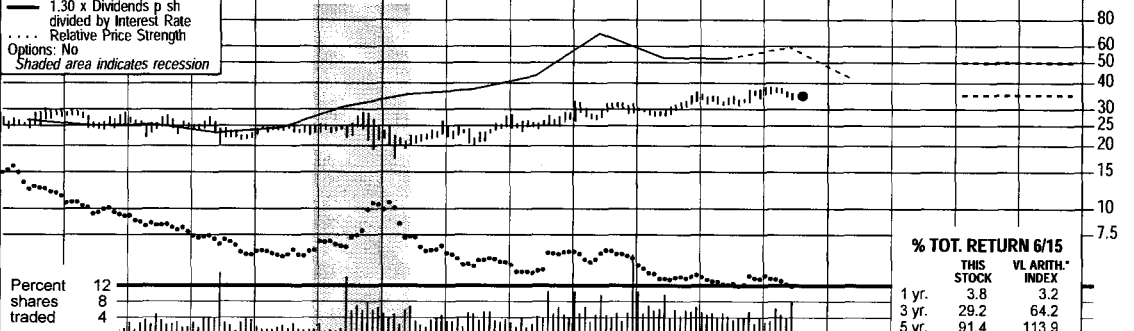
Div'd reinvestment plan available. (E) Excludes non-reg. rev.

Company's Financial Strength	B++
Stock's Price Stability	95
Price Growth Persistence	40
Earnings Predictability	85

To subscribe call 1-800-VALUELINE

© 2015 Value Line, Inc. All rights reserved. Factual material is obtained from sources believed to be reliable and is provided without warranties of any kind. THE PUBLISHER IS NOT RESPONSIBLE FOR ANY ERRORS OR OMISSIONS HEREIN. This publication is strictly for subscriber's own, non-commercial, internal use. No part of it may be reproduced, resold, stored or transmitted in any printed, electronic or other form, or used for generating or marketing any printed or electronic publication, service or product.

RECENT PRICE	34.88	P/E RATIO	17.4 (Trailing: 18.1 Median: 21.0)	RELATIVE P/E RATIO	0.92	DIV'D YLD	3.1%	VALUE LINE
--------------	-------	-----------	---------------------------------------	--------------------	------	-----------	------	------------

[illegible]

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	© VALUE LINE PUB. LLC	18-20
5.87	5.70	5.93	5.77	5.91	6.04	5.81	5.68	7.05	7.24	6.93	7.65	7.93	9.47	8.29	8.45	8.65	9.00	Revenues per sh	12.50
1.65	1.73	1.78	1.78	1.89	1.91	1.62	1.52	1.90	1.95	1.93	2.04	2.11	2.64	2.63	2.97	3.20	3.35	"Cash Flow" per sh	3.60
1.03	1.09	1.13	1.12	1.15	1.16	.88	.81	1.05	1.11	1.19	1.13	1.13	1.53	1.66	1.92	2.00	2.10	Earnings per sh <sup>A</sup>	2.25
.79	.79	.80	.81	.83	.84	.85	.86	.87	.88	.90	.92	.94	.96	.98	1.01	1.05	1.09	Div'd Decl'd per sh <sup>B</sup>	1.30
1.42	1.43	1.86	1.98	1.49	1.58	1.96	1.96	2.24	2.44	3.28	3.06	2.61	2.79	3.02	4.11	4.60	4.15	Cap'l Spending per sh	2.85
8.61	8.92	9.25	10.06	10.46	10.94	11.52	11.60	11.95	12.23	12.67	13.05	13.50	20.95	17.92	18.83	20.10	21.15	Book Value per sh <sup>D</sup>	24.15
7.26	7.28	7.65	7.94	7.97	8.04	8.17	8.27	8.38	8.46	8.57	8.68	8.76	8.85	11.04	11.12	11.20	11.35	Common Shs Outst'g <sup>C</sup>	12.00
18.2	18.2	21.5	24.3	23.5	22.9	28.6	29.0	23.0	22.2	18.4	20.7	23.0	19.4	18.4	17.5	<i>Bold figures are Value Line estimates</i>		Avg Annn'l P/E Ratio	19.0
1.04	1.18	1.10	1.33	1.34	1.21	1.52	1.57	1.22	1.34	1.23	1.32	1.44	1.23	1.03	.92			Relative P/E Ratio	1.20
4.2%	4.0%	3.3%	3.0%	3.0%	3.1%	3.4%	3.6%	3.6%	3.6%	4.1%	3.9%	3.6%	3.2%	3.2%	3.0%			Avg Annn'l Div'd Yield	2.8%

<b>CAPITAL STRUCTURE as of 3/31/15</b>				47.5	46.9	59.0	61.3	59.4	66.4	69.4	83.8	91.5	94.0	97.0	102	Revenues (\$mill)	150
<b>Total Debt \$185.6 mill. Due in 5 Yrs \$19.3 mill.</b>				7.2	6.7	8.8	9.4	10.2	9.8	9.9	13.6	18.3	21.3	23.0	24.0	Net Profit (\$mill)	27.0
<b>LT Debt \$177.7 mill. LT Interest \$7.0 mill. (46% of Cap'l)</b>				--	23.5%	32.4%	27.2%	19.5%	35.2%	41.3%	32.0%	28.0%	14.4%	18.0%	19.5%	Income Tax Rate	30.0%
				--	--	--	1.7%	--	--	--	1.7%	2.0%	2.4%	2.5%	2.5%	AFUDC % to Net Profit	2.0%
<b>Leases, Uncapitalized: Annual rentals \$.1 mill.</b>				44.9%	44.4%	47.8%	46.9%	50.6%	49.5%	53.2%	49.0%	46.9%	45.7%	45.5%	47.5%	Long-Term Debt Ratio	47.5%
<b>Pension Assets-12/14 \$61.6 mill.</b>				54.6%	55.1%	51.8%	52.7%	49.1%	50.2%	46.5%	50.8%	52.9%	54.1%	54.5%	52.5%	Common Equity Ratio	52.5%
<b>Oblig. \$79.8 mill.</b>				172.3	174.1	193.2	196.5	221.3	225.6	254.2	364.6	373.6	386.8	420	455	Total Capital (\$mill)	550
<b>Pfd Stock \$0.8 mill. Pfd Divd NMF</b>				247.7	268.1	284.3	302.3	325.2	344.2	362.4	447.9	471.9	506.9	535	560	Net Plant (\$mill)	675
				5.0%	4.9%	5.5%	5.9%	5.5%	5.4%	4.9%	4.8%	5.9%	6.4%	6.5%	6.5%	Return on Total Cap'l	6.0%
<b>Common Stock 11,152,145 shs. as of 4/30/15</b>				7.5%	6.9%	8.7%	9.0%	9.3%	8.6%	8.3%	7.3%	9.2%	10.1%	10.0%	10.0%	Return on Shr. Equity	9.5%
<b>MARKET CAP: \$400 million (Small Cap)</b>				7.6%	7.0%	8.7%	9.1%	9.4%	8.7%	8.3%	7.3%	9.2%	10.2%	10.0%	10.0%	Return on Com Equity	9.5%
				.3%	NMF	1.6%	1.9%	2.3%	1.6%	1.4%	2.8%	3.8%	4.8%	4.5%	4.5%	Retained to Com Eq	4.0%
<b>CURRENT POSITION 2013 2014 3/31/15 (\$MILL.)</b>				95%	105%	82%	79%	76%	81%	83%	62%	59%	53%	53%	52%	All Div'ds to Net Prof	58%

Cash Assets	18.4	2.5	2.3	<b>BUSINESS:</b> Connecticut Water Service, Inc. is a non-operating holding company, whose income is derived from earnings of its wholly-owned subsidiary companies (regulated water utilities). In 2014, 93% of net income was derived from these activities. Provides water services to 400,000 people in 77 municipalities throughout Connecticut and Maine. Acquired The Maine Water Company, January, 2012; Biddeford and Saco Water, December, 2012. Incorporated: Connecticut. Has 265 employees. Chairman/President/Chief Executive Officer: Eric W. Thornburg. Officers and directors own 2.3% of the common stock; BlackRock, Inc. 7.0%; (4/15 proxy). Address: 93 West Main Street, Clinton, CT 06413. Telephone: (860) 669-8636. Internet: <a href="http://www.ctwater.com">www.ctwater.com</a> .
Accounts Receivable	12.3	12.0	11.4	
Other	16.2	21.7	22.5	
Current Assets	46.9	36.2	36.2	
Accts Payable	10.8	10.0	7.2	
Debt Due	4.1	4.4	7.9	
Other	7.8	9.2	10.0	

Current Liab.	22.7	23.6	25.1
<b>ANNUAL RATES</b>	<b>Past</b>	<b>Past</b>	<b>Est'd '12-'14</b>
of change (per sh)	<b>10 Yrs.</b>	<b>5 Yrs.</b>	<b>'10-'20</b>
Revenues	4.0%	4.5%	6.0%
"Cash Flow"	4.0%	7.5%	4.5%
Earnings	4.0%	9.0%	4.5%
Dividends	2.0%	2.0%	5.0%
Book Value	6.5%	9.5%	4.0%

tax rebate, and cost savings, will all contribute to the gains.

**Dividend growth prospects have improved.** The utility has only been able to increase its annual payout an average of 2% annually over both the last five- and 10 year-periods. In 2014, the trend was broken, as the dividend was hiked 3%. Moreover, when the board meets in September, the quarterly dividend could be boosted another \$0.01 a share, to around \$0.2675. This would be a 4% increase, which would put the utility closer, but still below, the industry norm.

**The company has been successful in expanding the business.** Unless located in a service area experiencing strong economic growth, it can be hard for a utility to grow its customer base. Over the past several years, Connecticut Water has made two decent size acquisitions, and has

should take around 18 months to complete.

**Connecticut Water might not be big, but it is solid.** With a market capitalization of only \$400 million, the utility is on the small side. Still, the balance sheet is healthy, and should remain so for the foreseeable future. This is very positive in light of the larger amounts that have to be spent to replace an aging distribution system. (The industry is in the midst of a major refurbishing program.)

**Shares of Connecticut Water are expected to perform in line with the broader market averages in the year ahead.** The dividend yield is 100 basis points above that of the typical stock in the *Value Line* universe. Potential total return through 2018-2020 is lower than the average equity, however.

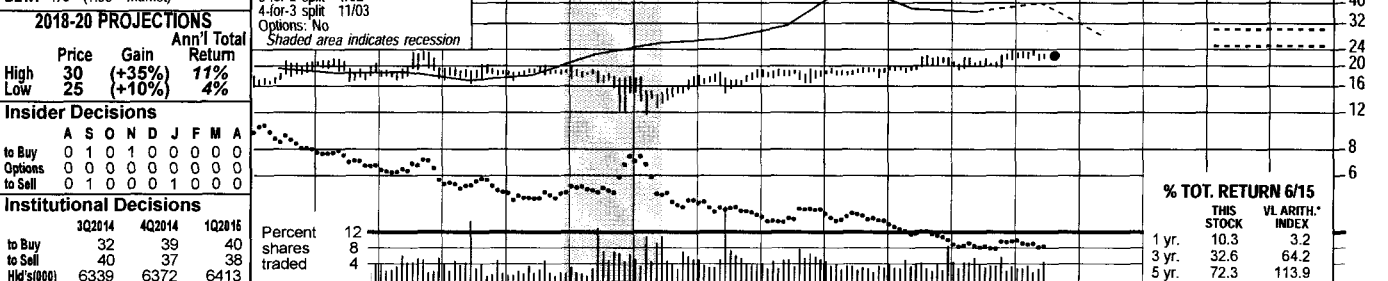
*James A. Flood*  
*July 17, 2015*

Company's Financial Strength	B+
Stock's Price Stability	90
Price Growth Persistence	50
Earnings Predictability	85

# MIDDLESEX WATER NDQ-MSEX

RECENT PRICE **22.46** P/E RATIO **19.5** (Trailing: 19.5 Median: 21.0) RELATIVE P/E RATIO **1.03** DIV'D YLD **3.5%** VALUE LINE

<b>TIMELINESS</b> 3 Lowered 4/11/14	High: 21.8 23.5 20.5 20.2 19.8 17.9 19.3 19.4 19.6 22.5 23.7 23.8	Target Price Range 2020
<b>SAFETY</b> 2 New 10/21/11	Low: 16.7 17.1 16.5 16.9 12.0 11.6 14.7 16.5 17.5 18.6 19.1 21.2	2018 2019
<b>TECHNICAL</b> 2 Raised 7/17/15		
<b>BETA</b> .75 (1.00 = Market)		



1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	© VALUE LINE PUB. LLC	18-20
5.35	5.39	5.87	5.98	6.12	6.25	6.44	6.16	6.50	6.79	6.75	6.60	6.50	6.98	7.19	7.26	7.40	7.70	Revenues per sh	9.10
1.19	.99	1.18	1.20	1.15	1.28	1.33	1.33	1.49	1.53	1.40	1.55	1.46	1.56	1.72	1.84	1.95	2.00	"Cash Flow" per sh	2.25
.76	.51	.66	.73	.61	.73	.71	.82	.87	.89	.72	.96	.84	.90	1.03	1.13	1.15	1.20	Earnings per sh A	1.35
.60	.61	.62	.63	.65	.66	.67	.68	.69	.70	.71	.72	.73	.74	.75	.76	.77	.78	Div'd Decl'd per sh B	.85
2.33	1.32	1.25	1.59	1.87	2.54	2.18	2.31	1.66	2.12	1.49	1.90	1.50	1.36	1.26	1.40	1.80	2.00	Cap'l Spending per sh	2.00
6.95	6.98	7.11	7.39	7.60	8.02	8.26	9.52	10.05	10.03	10.33	11.13	11.27	11.48	11.82	12.24	12.75	13.25	Book Value per sh	14.30
10.00	10.11	10.17	10.36	10.48	11.36	11.58	13.17	13.25	13.40	13.52	15.57	15.70	15.82	15.96	16.12	16.25	16.25	Common Shs Outst'g C	17.00
17.6	28.7	24.6	23.5	30.0	26.4	27.4	22.7	21.6	19.8	21.0	17.8	21.7	20.8	19.7	18.5	18.5	18.5	Avg Ann'l P/E Ratio	20.5
1.00	1.87	1.26	1.28	1.71	1.39	1.46	1.23	1.15	1.19	1.40	1.13	1.36	1.32	1.11	.98	.98	.98	Relative P/E Ratio	1.30
4.4%	4.2%	3.8%	3.7%	3.5%	3.4%	3.5%	3.7%	3.7%	4.0%	4.7%	4.2%	4.0%	4.0%	3.7%	3.7%	3.7%	3.7%	Avg Ann'l Div'd Yield	3.1%
<b>CAPITAL STRUCTURE as of 3/31/15</b>																			
Total Debt \$158.9 mill. Due in 5 Yrs \$49.8 mill.																			
LT Debt \$137.8 mill. LT Interest \$4.6 mill.																			
(41% of Cap'l)																			
<b>Pension Assets-12/14</b> \$51.6 mill.																			
Obliq. \$75.0 mill.																			
<b>Pfd Stock</b> \$2.4 mill. Pfd Div'd: \$2 mill.																			
<b>Common Stock</b> 16,141,954 shs. as of 4/30/15																			
<b>MARKET CAP: \$375 million (Small Cap)</b>																			
<b>CURRENT POSITION (\$MILL.)</b>																			
Cash Assets	4.8	2.7	5.0																
Other	21.0	20.2	20.6																
Current Assets	25.8	22.9	25.6																
Accts Payable	6.3	6.4	7.0																
Debt Due	33.8	24.9	15.5																
Other	12.6	12.6	21.1																
Current Liab.	52.7	43.9	43.6																

**BUSINESS:** Middlesex Water Company engages in the ownership and operation of regulated water utility systems in New Jersey, Delaware, and Pennsylvania. It also operates water and wastewater systems under contract on behalf of municipal and private clients in NJ and DE. Its Middlesex System provides water services to 60,000 retail customers, primarily in Middlesex County, New Jersey. In 2014, the Middlesex System accounted for 60% of operating revenues. At 12/31/14, the company had 282 employees. Incorporated: NJ. President, CEO, and Chairman: Dennis W. Doll. Officers & directors own 3.5% of the common stock; BlackRock Institutional Trust Co., 6.6% (4/15 proxy). Add: 1500 Ronson Road, Iselin, NJ 08830. Tel.: 732-634-1500. Internet: www.middlesexwater.com.

**Middlesex Water has the highest dividend yield in the water utility group.** The average yield for the nine member industry is about 2.6%, versus the company's 3.5%.

**Generous yields are not necessarily a positive.** The reason investors demand a premium from Middlesex is due to its sub-par dividend growth prospects. Indeed, over the past 10 years, payout hikes have increased only 1.5% annually. On the positive side, the company's earnings have been rising at a faster pace, which is reflected in an improved payout ratio.

Cal-endar	QUARTERLY REVENUES (\$mill.)				Full Year
	Mar.31	Jun. 30	Sep. 30	Dec. 31	
2012	23.5	27.4	32.4	27.1	110.4
2013	27.0	29.1	31.3	27.4	114.8
2014	27.1	29.2	32.7	28.1	117.1
2015	28.8	30.0	33.0	28.2	120
2016	29.0	31.0	35.0	30.0	125

Cal-endar	EARNINGS PER SHARE <sup>A</sup>				Full Year
	Mar.31	Jun. 30	Sep. 30	Dec. 31	
2012	.11	.24	.38	.17	.90
2013	.20	.28	.36	.19	1.03
2014	.20	.29	.42	.22	1.13
2015	.22	.30	.43	.20	1.15
2016	.22	.32	.45	.21	1.20

Cal-endar	QUARTERLY DIVIDENDS PAID <sup>B=</sup>				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2011	.183	.183	.183	.185	.73
2012	.185	.185	.185	.1875	.74
2013	.1875	.1875	.1875	.19	.75
2014	.19	.19	.19	.1925	.76
2015	.1925	.1925			

positive. The reason investors demand a premium from Middlesex is due to its sub-par dividend growth prospects. Indeed, over the past 10 years, payout hikes have increased only 1.5% annually. On the positive side, the company's earnings have been rising at a faster pace, which is reflected in an improved payout ratio.

**We believe there are better options available for accounts seeking to own shares in a water utility.** Historically, utility stocks with lower yields and better distributions prospects, outperform equities that have above-average yields and below-average dividend growth prospects.

**We are sticking with our previous earnings estimates.** Mostly as a result of rate relief, Middlesex's first-quarter share earnings came in at a solid \$0.22, versus our \$0.21 forecast. All told, we expect the bottom line to increase a modest \$0.02 a share this year, to \$1.15 a share. For

As is the case with most water companies, Middlesex needs to allocate more funds to repair and upgrade its pipeline infrastructure. Thanks to a relatively reasonable existing price structure, the size of the proposed rate increase is not as burdensome as it may sound. If the regulators allow the request to be implemented, the average bill of a residential customer would only go up by about \$25 a quarter. Predicting when a decision will be finalized is difficult, but it could take well more than a year. A very positive ruling by mid-2016, however, would most likely cause us to up our full-year earnings estimate.

**Finances are in good shape.** Based on its \$375 million market capitalization, Middlesex is a small entity. Still, using most financial metrics, the company's balance sheet compares favorably to most in this group.

*James A. Flood* *July 17, 2015*

(A) Diluted earnings. May not sum due to rounding. Next earnings report due mid-August.

(B) Dividends historically paid in mid-Feb.

(C) In millions, adjusted for splits.

May, Aug., and November: Div'd reinvestment plan available.

**Company's Financial Strength** B++

**Stock's Price Stability** 90

**Price Growth Persistence** 40

**Earnings Predictability** 80

© 2015 Value Line, Inc. All rights reserved. Factual material is obtained from sources believed to be reliable and is provided without warranties of any kind. THE PUBLISHER IS NOT RESPONSIBLE FOR ANY ERRORS OR OMISSIONS HEREIN. This publication is strictly for subscriber's own, non-commercial, internal use. No part of it may be reproduced, resold, stored or transmitted in any printed, electronic or other form, or used for generating or marketing any printed or electronic publication, service or product.

**To subscribe call 1-800-VALUELINE**

# SJW CORP. NYSE:SJW

RECENT PRICE **30.82** P/E RATIO **21.3** (Trailing: 11.3 Median: 24.0) RELATIVE P/E RATIO **1.12** DIV'D YLD **2.6%**

VALUE LINE

**TIMELINESS** 3 Raised 5/8/15  
**SAFETY** 3 New 4/22/11  
**TECHNICAL** 3 Lowered 7/10/15  
**BETA** .80 (1.00 = Market)

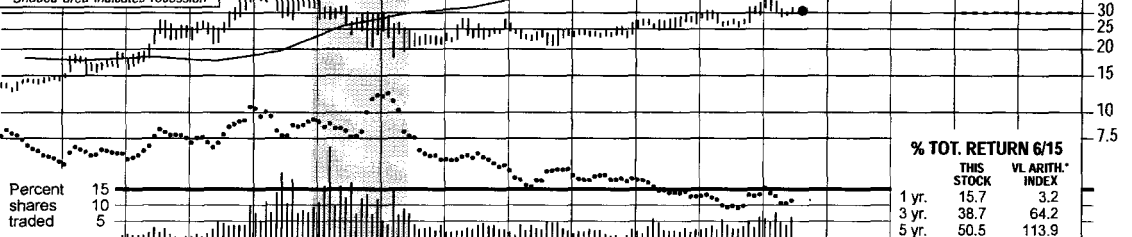
High: 19.6 27.8 45.3 43.0 35.1 30.4 28.2 26.8 26.9 30.1 33.7 35.7  
Low: 14.6 16.1 21.2 27.7 20.0 18.2 21.6 20.9 22.6 24.5 25.5 28.6

LEGENDS  
1.50 x Dividends p sh  
divided by Interest Rate  
Relative Price Strength  
3-for-1 split 3/04  
2-for-1 split 3/06  
Options: No  
Shaded area indicates recession

**2018-20 PROJECTIONS**  
Price Gain Ann'l Total  
High 45 (+45%) 12%  
Low 30 (-5%) 2%

**Insider Decisions**  
A S O N D J F M A  
to Buy 1 1 0 0 2 0 1 3 0  
Options 0 0 0 1 0 0 0 0 0  
to Sell 0 1 0 1 0 0 0 0 0

**Institutional Decisions**  
3Q2014 4Q2014 1Q2015  
to Buy 38 49 61  
to Sell 45 47 47  
Hld's(000) 10784 10867 10898



1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	© VALUE LINE PUB. LLC	18-20
6.40	6.74	7.45	7.97	8.20	9.14	9.86	10.35	11.25	12.12	11.68	11.62	12.85	14.01	13.73	15.76	14.40	14.30	Revenues per sh	17.60
1.43	1.23	1.49	1.55	1.75	1.89	2.21	2.38	2.30	2.44	2.21	2.38	2.80	2.97	2.90	4.42	3.50	3.60	"Cash Flow" per sh	3.90
.87	.58	.77	.78	.91	.87	1.12	1.19	1.04	1.08	.81	.84	1.11	1.18	1.12	2.54	1.45	1.45	Earnings per sh <sup>A</sup>	1.75
.40	.41	.43	.46	.49	.51	.53	.57	.61	.65	.66	.68	.69	.71	.73	.75	.78	.81	Div'd Decl'd per sh <sup>B</sup>	1.05
1.77	1.89	2.63	2.06	3.41	2.31	2.83	3.87	6.62	3.79	3.17	5.65	3.75	5.67	4.68	5.02	5.00	4.95	Cap'l Spending per sh	4.90
7.88	7.90	8.17	8.40	9.11	10.11	10.72	12.48	12.90	13.99	13.66	13.75	14.20	14.71	15.92	17.75	18.30	19.05	Book Value per sh	21.30
18.27	18.27	18.27	18.27	18.27	18.27	18.27	18.28	18.36	18.18	18.50	18.55	18.59	18.67	20.17	20.29	20.50	21.00	Common Shs Outst'g <sup>C</sup>	23.00
15.5	33.1	18.5	17.3	15.4	19.6	19.7	23.5	33.4	26.2	28.7	29.1	21.2	20.4	24.3	11.2	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	22.0
.88	2.15	.95	.94	.88	1.04	1.05	1.27	1.77	1.58	1.91	1.85	1.33	1.30	1.37	.59			Relative P/E Ratio	1.40
3.0%	2.1%	3.0%	3.4%	3.5%	3.0%	2.4%	2.0%	1.7%	2.3%	2.8%	2.8%	2.9%	3.0%	2.7%	2.6%			Avg Ann'l Div'd Yield	2.8%

**CAPITAL STRUCTURE as of 3/31/15**  
Total Debt \$396.5 mill. Due in 5 Yrs \$21.2 mill.  
LT Debt \$384.2 mill. LT Interest \$18.1 mill.  
(52% of Cap'l)

**Leases, Uncapitalized:** Annual rentals \$5.5 mill.

**Pension Assets-12/14** \$91.4 mill.  
**Oblig.** \$128.7 mill.

**Pfd Stock** None.

**Common Stock** 20,341,489 shs.  
as of 4/22/15  
**MARKET CAP:** \$625 million (Small Cap)

CURRENT POSITION	2013	2014	3/31/15
Cash Assets	2.3	2.4	5.4
Other	37.4	65.7	57.7
Current Assets	39.7	68.1	63.1
Accts Payable	12.6	7.0	11.8
Debt Due	23.0	13.8	12.3
Other	23.6	23.9	24.6
Current Liab.	59.2	44.7	48.7
Fix. Chg. Cov.	268%	270%	286%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '12-'14 to '18-'20
Revenues	5.5%	4.5%	4.0%
"Cash Flow"	7.0%	8.0%	4.5%
Earnings	6.5%	10.5%	6.5%
Dividends	4.0%	3.0%	5.5%
Book Value	6.0%	3.5%	5.0%

Cal-endar	QUARTERLY REVENUES (\$ mill.)	Full Year
	Mar.31 Jun. 30 Sep. 30 Dec. 31	
2012	51.1 65.6 82.4 62.4	261.5
2013	50.1 74.2 85.2 67.4	276.9
2014	54.6 70.4 125.4 69.3	319.7
2015	62.1 73.0 89.0 70.9	295
2016	60.0 75.0 90.0 75.0	300

Cal-endar	EARNINGS PER SHARE <sup>A</sup>	Full Year
	Mar.31 Jun. 30 Sep. 30 Dec. 31	
2012	.06 .28 .53 .31	1.18
2013	.07 .37 .44 .24	1.12
2014	.04 .34 1.88 .28	2.54
2015	.23 .37 .53 .32	1.45
2016	.09 .41 .57 .38	1.45

Cal-endar	QUARTERLY DIVIDENDS PAID <sup>B</sup>	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2011	.173 .173 .173 .173	.69
2012	.1775 .1775 .1775 .1775	.71
2013	.1825 .1825 .1825 .1825	.73
2014	.1875 .1875 .1875 .1875	.75
2015	.1950 .195	

**BUSINESS:** SJW Corporation engages in the production, purchase, storage, purification, distribution, and retail sale of water. It provides water service to approximately 229,000 connections that serve a population of approximately one million people in the San Jose area and 12,000 connections that serve approximately 36,000 residents in a service area in the region between San Antonio and

**A new pricing structure will most surely have an impact on the amount of water consumed by SJW's customers.** Faced with the ongoing drought, California's governor established rules aimed at reducing water usage approximately 25%. The mandatory program, which went into effect on June 1st, also contains other restrictions and fines.

**Water utilities operating in the state should not be affected, however.** The California Public Utility Commission had already instituted policies that changed the methodology of how water companies generate profits. Now, SJW can promote conservation and not see its net income decline.

**SJW's bottom line should do well this year.** First-quarter results were considerably above expectations as the company benefited from an unusual one-time gain and an earlier decision to extend rate relief into 2015. For the full year, we think SJW's share net will reach \$1.45. If last year's profits weren't impacted by a one-time gain, the comparison would appear better.

**Capital spending will remain at rela-**

tively high levels out to late decade. All of the regulated utilities we cover are in the midst of extensive programs intended to replace antiquated pipes and related structures. The industry had been deferring these expenditures until the past few years because companies weren't sure that any investments made would be recouped. Once states, such as California, began working closer with water companies, more capital began to be spent on improving systems.

**Earnings momentum should stall in 2016.** This will be partially due to there not being any unforeseen one-time gains in our estimate, as has been the case in 2014 and 2015. Another factor adding some uncertainty is how much surface water will be available. Should supplies remain tight, more-expensive options, including drilling and buying on the open market, would be required.

**Shares of SJW do not have much appeal at this juncture.** Over the pull to 2018-2020, the stock's total return potential is lower than the typical stock in our universe.

James A. Flood

July 17, 2015

(A) Diluted earnings. Excludes nonrecurring losses: '03, \$1.97; '04, \$3.78; '05, \$1.09; '06, \$16.36; '08, \$1.22; '10, \$0.46. Next earnings report due mid-August. Quarterly earnings may

not add due to rounding.  
(B) Dividends historically paid in early March, June, September, and December. ■ Div'd reinvestment plan available.

(C) In millions, adjusted for stock splits.

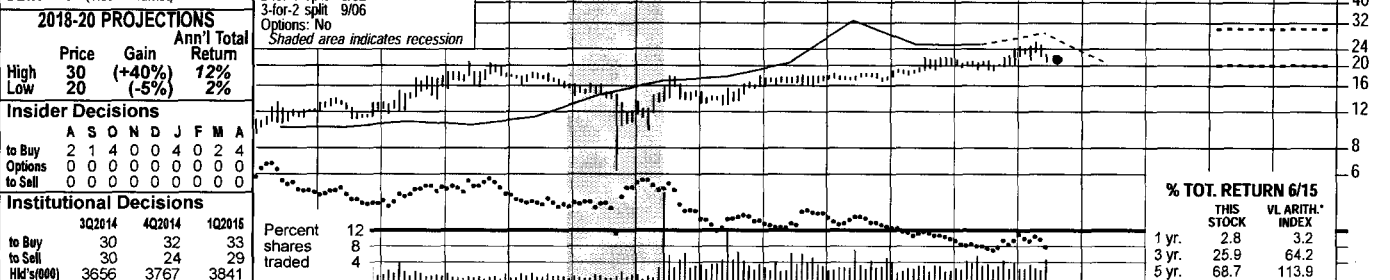
Company's Financial Strength B+  
Stock's Price Stability 85  
Price Growth Persistence 30  
Earnings Predictability 55

© 2015 Value Line, Inc. All rights reserved. Factual material is obtained from sources believed to be reliable and is provided without warranties of any kind. THE PUBLISHER IS NOT RESPONSIBLE FOR ANY ERRORS OR OMISSIONS HEREIN. This publication is strictly for subscriber's own, non-commercial, internal use. No part of it may be reproduced, resold, stored or transmitted in any printed, electronic or other form, or used for generating or marketing any printed or electronic publication, service or product.

To subscribe call 1-800-VALUELINE

<b>YORK WATER</b> NDQ:YORW	RECENT PRICE <b>21.47</b>	P/E RATIO <b>22.6</b> (Trailing: 23.1 Median: 25.0)	RELATIVE P/E RATIO <b>1.19</b>	DIV'D YLD <b>2.9%</b>	VALUE LINE
----------------------------	---------------------------	---	--------------------------------	-----------------------	------------

<b>TIMELINESS</b>	3	Raised 3/27/15	High:	14.0	17.9	21.0	18.5	16.5	18.0	18.0	18.1	18.5	22.0	24.3	26.0																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																								
-------------------	---	----------------	-------	------	------	------	------	------	------	------	------	------	------	------	------	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--



1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	© VALUE LINE PUB. LLC	18-20
--	--	2.05	2.05	2.17	2.18	2.58	2.56	2.79	2.89	2.95	3.07	3.18	3.21	3.27	3.58	3.85	4.00	Revenues per sh	4.75
--	--	.59	.57	.65	.65	.79	.77	.86	.88	.95	1.07	1.09	1.12	1.19	1.36	1.50	1.55	"Cash Flow" per sh	1.75
--	--	.43	.40	.47	.49	.56	.58	.57	.57	.64	.71	.71	.72	.75	.89	.95	1.00	Earnings per sh A	1.15
--	--	.34	.35	.37	.39	.42	.45	.48	.49	.51	.52	.53	.54	.55	.57	.60	.63	Div'd Decl'd per sh B	.79
--	--	.75	.66	1.07	2.50	1.69	1.85	1.69	2.17	1.18	.83	.74	.94	.76	1.10	1.10	1.20	Cap'l Spending per sh	1.15
--	--	3.79	3.90	4.06	4.65	4.85	5.84	5.97	6.14	6.92	7.19	7.45	7.73	7.98	8.15	8.65	8.65	Book Value per sh	9.60
--	--	9.46	9.55	9.63	10.33	10.40	11.20	11.27	11.37	12.56	12.69	12.79	12.92	12.98	12.83	12.50	12.50	Common Shs Outst'g C	12.00
--	--	17.8	26.9	24.5	25.7	26.3	31.2	30.3	24.6	21.9	20.7	23.9	24.4	26.3	23.1			Avg Ann'l P/E Ratio	22.5
--	--	.91	1.47	1.40	1.36	1.40	1.68	1.61	1.48	1.46	1.32	1.50	1.55	1.48	1.22			Relative P/E Ratio	1.40
--	--	4.4%	3.3%	3.2%	3.1%	2.9%	2.5%	2.8%	3.5%	3.6%	3.5%	3.1%	3.1%	2.8%	2.8%			Avg Ann'l Div'd Yield	3.0%

<b>CAPITAL STRUCTURE as of 3/31/15</b>										26.8	28.7	31.4	32.8	37.0	39.0	40.6	41.4	42.4	45.9	48.0	50.0	Revenues (\$mill)	57.0
Total Debt \$84.8 mill. Due in 5 Yrs \$30.5 mill.										5.8	6.1	6.4	6.4	7.5	8.9	9.1	9.3	9.7	11.5	12.0	12.5	Net Profit (\$mill)	14.0
LT Debt \$84.8 mill. LT Interest \$5.1 mill.										36.7%	34.4%	36.5%	36.1%	37.9%	38.5%	35.3%	37.6%	37.6%	29.8%	29.5%	29.5%	Income Tax Rate	36.5%
<b>Pension Assets 12/14 \$30.6 mill.</b>										--	7.2%	3.6%	10.1%	--	1.2%	1.1%	1.1%	.8%	1.8%	1.5%	1.5%	AFUDC % to Net Profit	1.0%
Oblig. \$40.9 mill.										44.1%	48.3%	46.5%	54.5%	45.7%	48.3%	47.1%	46.0%	45.1%	44.8%	47.5%	47.0%	Long-Term Debt Ratio	48.0%
<b>Pfd Stock None</b>										55.9%	51.7%	53.5%	45.5%	54.3%	51.7%	52.9%	54.0%	54.9%	55.2%	52.5%	53.0%	Common Equity Ratio	52.0%
<b>Common Stock 12,858,271 shs.</b>										90.3	126.5	125.7	153.4	160.1	176.4	180.2	184.8	188.4	189.4	195	205	Total Capital (\$mill)	220
<b>as of 5/5/15</b>										155.3	174.4	191.6	211.4	222.0	228.4	233.0	240.3	244.2	253.2	260	265	Net Plant (\$mill)	280
<b>MARKET CAP: \$275 million (Small Cap)</b>										8.4%	6.2%	6.7%	5.7%	6.2%	6.5%	6.4%	6.4%	6.5%	7.4%	7.5%	7.5%	Return on Total Cap'l	8.0%
<b>CURRENT POSITION</b>										11.6%	9.3%	9.5%	9.2%	8.6%	9.8%	9.5%	9.3%	9.3%	11.0%	11.5%	11.5%	Return on Shr. Equity	12.0%
<b>(\$MILL.)</b>										11.6%	9.3%	9.5%	9.2%	8.6%	9.8%	9.5%	9.3%	9.3%	11.0%	11.5%	11.5%	Return on Com Equity	12.0%
<b>Cash Assets</b>										3.0%	2.2%	1.7%	1.4%	1.9%	2.7%	2.5%	2.4%	2.4%	3.9%	4.5%	4.5%	Retained to Com Eq	3.5%
<b>Accounts Receivable</b>										74%	77%	82%	85%	78%	72%	73%	74%	74%	64%	63%	63%	All Div'ds to Net Prof	69%
<b>Other</b>																							
<b>Current Assets</b>																							
<b>Accts Payable</b>																							
<b>Debt Due</b>																							
<b>Other</b>																							
<b>Current Liab.</b>																							
<b>Fix. Chg. Cov.</b>										417%	424%	437%											

**BUSINESS:** The York Water Company is the oldest investor-owned regulated water utility in the United States. It has operated continuously since 1816. As of December 31, 2014, the company's average daily availability was 35.2 million gallons and its service territory had an estimated population of 190,000. Has more than 65,100 customers. Residential customers accounted for 63% of 2014 revenues; commercial and industrial (29%); other (8%). It also provides sewer billing services. Incorporated: PA. York had 106 full-time employees at 12/31/14. President/CEO: Jeffrey R. Hines. Officers/directors own 1.1% of the common stock (4/15 proxy). Address: 130 East Market Street York, Pennsylvania 17401. Telephone: (717) 845-3601. Internet: [www.yorkwater.com](http://www.yorkwater.com).

**York Water has been turning in solid results recently.** For the fourth consecutive quarter, the utility posted strong year-over-year earnings comparisons. In the March period, share earnings rose 25%, mostly due to a lower tax rate and higher tariffs implemented in March.

**Wall Street seemingly has not been impressed, however.** Since our April report, the price of the stock has decreased 14%. We think some investors may have viewed the equity as overpriced. Another possibility is that a major institutional shareholder sold its entire position all at once, which can substantially move the price of a stock with a market capitalization of only \$275 million.

**Future bottom-line comparisons are expected to be decent.** York should continue to benefit from a reduced tax rate, the higher fees that regulators allowed the company to charge its customers, and an ongoing program aimed at reducing costs that is proving to be successful. However, with a small customer base in a region not expected to experience much economic growth, demand for water should be fairly subdued. All in all, we think earnings per share should rise \$0.06 a share (6.7%) in 2015, and \$0.05 a share (5.3%) next year.

**The capital budget has expanded.** York's spending to upgrade and modernize its infrastructure rose 40% in 2014. Over the next three-to five-year period, we think similar annual outlays will be required for this process. The company will not differ too much from other water utilities, as the industry is in the midst of increasing funds spent on improving current pipelines and equipment.

**York's finances appear healthy enough to handle this burden.** While we expect some of the utility's financial metrics to decline through the end of the decade, they still should remain better than the industry norm. For example, even if its equity-to-total capital ratio declines as it takes on more debt, the ratio should remain a solid 52% by late decade. **York shares are expected to be market performers in the year ahead.** And while long-term total return prospects have improved due to the dip in the stock price, we believe there are more-attractive candidates available in the group.

*James A. Flood* July 17, 2015

(A) Diluted earnings. Next earnings report due mid-August.  
(B) Dividends historically paid in mid-January, April, July, and October.

(C) In millions, adjusted for splits.

Company's Financial Strength	B+
Stock's Price Stability	85
Price Growth Persistence	55
Earnings Predictability	95

To subscribe call 1-800-VALUELINE

© 2015 Value Line, Inc. All rights reserved. Factual material is obtained from sources believed to be reliable and is provided without warranties of any kind. THE PUBLISHER IS NOT RESPONSIBLE FOR ANY ERRORS OR OMISSIONS HEREIN. This publication is strictly for subscriber's own, non-commercial, internal use. No part of it may be reproduced, resold, stored or transmitted in any printed, electronic or other form, or used for generating or marketing any printed or electronic publication, service or product.